MID-TERM REVIEW OF THE FIRST MALAYSIA PLAN 1966-70

Malaysia

MID-TERM REVIEW

OF THE

FIRST MALAYSIA PLAN

1966-1970

DI-CHETAK DI-JABATAN CHETAK KERAJAAN
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FOREWORD

The First Malaysia Plan, adopted by Parliament in December 1965, represented a major challenge to the Government and people of Malaysia. This Mid-Term Review of the Plan shows how we have faced up to this challenge. It appraises the progress to date, analyses the problems encountered and assesses the prospects for the remainder of the Plan period. This Report enables us to appreciate the significant achievements made during 1966-68, as well as to see in what areas and for what reasons performance has exceeded or fallen short of targets. It also outlines potentials for economic development in 1969-70 and identifies actions which must be taken to achieve even higher levels of performance.

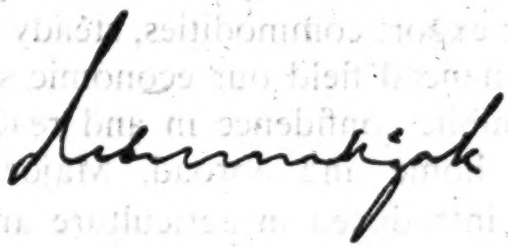
Progress during the first three years of the Plan has been substantial. Economic integration of the States of Malaysia has been significantly advanced. For the first time, policies and programmes have been formulated and implemented within the framework of an integrated national development plan. A dominant characteristic emerging from the course of development during the period is the extraordinary basic strength and resilience of the Malaysian economy. Despite the sharp fall in the prices of major export commodities, steady economic growth has been maintained. In the financial field our economic strength has been demonstrated by the strong public confidence in and ready acceptance of the Malaysian dollar both at home and abroad. Major institutional innovations and policy changes introduced in agriculture and industry have created a firmer and more diversified base for further advances in the years ahead.

The findings of the Review have indicated all-round development with a rising national income and steady improvement in living standards. But for a nation ambitious and impatient in its striving for rapid development, economic and social problems will always abound. Combined with the imperative need to build up our defence and internal security capabilities so as to ensure continued orderly development, these problems emphasise the urgency of mobilising greater resources and energies for development and defence.

The rate and results of development over the three-year period under review have been impressive. New confidence has been generated and, judging by our demonstrated ability and capacity, further development and greater economic growth can and will be attained. We are now well on our

way to reaching our Plan goals. During 1969-70, and in the period of the Second Malaysia Plan which will follow, we are determined to bring an even better life to all Malaysians.

The purpose of this Report is to assist all of us to play a constructive role in the challenging task of nation-building. The full and active participation of the people is most important. The Government can and will do its utmost to organise the best administrative machinery and formulate appropriate policies and programmes for development. It will also strive for a higher degree of co-ordination at Federal, State and District levels and between the public and private sectors. The private sector and trade unions should, in partnership with the Government, fully share in the opportunity and responsibility for development. But for development to succeed, much more is needed. We need strongly motivated men in all walks of life with progressive attitudes and dedication to the building of the Malaysian nation. We have many such men. With the concerted efforts of all of us, we will succeed.



(TUN ABDUL RAZAK BIN DATO' HUSSEIN),
Deputy Prime Minister, Malaysia

KUALA LUMPUR,
25th January, 1969

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CHAPTER I

Progress of the Economy, 1966-68

I.—GENERAL FACTORS AFFECTING THE COURSE OF DEVELOPMENT

The three years since the inception of the First Malaysia Plan spanned a period of several significant events with important implications for Malaysian development.

2. The process of economic integration of the component States of Malaysia was substantially advanced during 1966-68. For the first time development proceeded on the basis of a nationally integrated Plan. In 1966 and 1967 legislation was enacted permitting—with few exceptions—duty free movement within the country of all locally produced goods and the application of common external tariffs to imported items. Further, a new unified Income Tax Act came into force for the whole of Malaysia in 1968, thus replacing the separate and different Ordinances of West Malaysia, Sabah and Sarawak.

3. In the monetary field, Bank Negara Malaysia attained full status as a Central Bank with the assumption of currency issuing powers from 12th June, 1967. The ready acceptance by the public of the new Malaysian dollar clearly indicated general confidence in the currency. Not only was the changeover from the old Malayan dollar effected smoothly, the arrangements for the interchangeability of the Malaysian dollar with the currencies of Singapore and Brunei also operated satisfactorily. Confidence in the Malaysian currency was further enhanced by the country's adherence to Article VIII of the IMF Agreement in November, 1968.

4. Significant institutional and policy changes were also effected in agriculture and industry to enable the nation to advance more confidently and speedily towards the realisation of its developmental objectives. 1966 saw the commencement of operations by the Federal Agricultural Marketing Authority. In 1968, the "Jayadiri" programme was initiated as a

two-pronged strategy to support and develop self-reliant farm communities throughout the country. Under this programme, a concentrated and integrated effort will be made to meet the needs of more rapid development in areas which are already at a take-off stage. At the same time other areas will be prepared for concentrated effort subsequently through building key elements of the transportation system, improving the land base wherever needed and possible, and providing those other economic and social amenities not yet realised.

5. In the sphere of industrial development, the Federal Industrial Development Authority was established in 1967. In the subsequent year, the Investment Incentives Act was passed, providing a variety of incentives to induce a greater and more rapid flow of investments into manufacturing, agro-business and other enterprises.

6. On the external front, "Confrontation" from Indonesia, which began in 1963, was terminated in 1966. With its ending, the basis for mutually advantageous economic cooperation and trade was once again established. In 1967, the pound sterling was devalued but, given the strength of the Malaysian economy and its currency, it did not prove necessary to modify the parity of the new Malaysian dollar of 0.290299 grammes of fine gold.

7. During 1967 also, the decision of the British Government to withdraw its military presence from the area was announced. As this withdrawal is progressively effected, the country will in the short term lose that income, employment and foreign exchange hitherto generated by the British military presence. In 1968, the Philippines raised claim to Malaysian territory. These developments unhappily emphasise the need for Malaysia not to underestimate the importance of investment in its defence and internal security capabilities.

8. However, the event of most serious concern during the 1966-68 period was the sharp decline in the price of rubber, which reached 43.5 cents per pound in February, 1968—the lowest level since September, 1949. This had adverse effects on overall economic activity which are only now being overcome.

9. Thus the period 1966-68 included a number of developments of great value to the economy for many years to come. Other developments intensified the immediate problems of ensuring rapid economic and social development. It is, however, testimony to the strength and resilience of the Malaysian economy and to its development efforts that such difficulties were not permitted to interfere significantly with the attainment of a large measure of progress towards the nation's basic developmental objectives. The object of this Chapter is to assess the progress which has been achieved in the first three years of the First Malaysia Plan.

II.—OBJECTIVES OF THE FIRST MALAYSIA PLAN

10. As set out in the Plan, its main objectives are:

(i) to promote the integration of the peoples and States of Malaysia by embarking upon a development plan explicitly designed to promote the welfare of all;

(ii) to provide steady increases in levels of income and consumption per head;

(iii) to increase the well-being of Malaysia's rural inhabitants and other low-income groups, primarily by raising their productivity and thus their income-earning capacity;

(iv) to generate employment opportunities at a rate sufficient to provide productive work for new entrants to the labour force and lower the rate of unemployment;

(v) to stimulate new lines of economic activity, both agricultural and industrial, so as to reduce the nation's dependence on rubber and tin;

(vi) to educate and train Malaysians from all walks of life in order to equip them for effective participation in the process of economic and social development;

(vii) to lay the groundwork for less rapid population growth by instituting an effective programme of family planning;

(viii) to open for development sufficient new land to keep pace with the formation of new farm families and reduce the number of landless people desiring land for agricultural purposes;

(ix) to provide electric power, transportation facilities and communication services adequate to keep ahead of foreseen demands;

(x) to progress with health and social welfare development, low-cost housing and a wide range of other projects.

11. In terms of the major economic aggregates, the Plan projected an annual average rate of growth of Gross National Product (GNP) of 4.8% per annum, as against an average of 7.1% for the period 1961-65. This moderate expansion projected for the Plan period reflected the expectation that the volume of production for domestic use would grow at a somewhat slower rate of 7% in the Plan period as compared with 8.5% in the earlier years. The volume of exports was also expected to increase more slowly—2.4% as against 4% for the 1961-65 period. While a modest increase in domestic prices was assumed, export prices were projected to fall by nearly 2% annually on the average, thus entailing a worsening in the terms at which the country's exports are exchanged for imports. It was envisaged, however, that foreign aid and other inflows of capital from abroad would be available to finance a resource inflow of nearly $500 million in 1970 as against a net outflow in 1965 of $60 million.

12. The progress achieved with respect to the macro-economic and general objectives of the Plan (namely, (i) to (v) above) is assessed in the following sections. Chapters III to VIII will deal with developments in major individual sectors of the economy.

III.—GROWTH OF OUTPUT AND INCOME, 1966-68

13. In contrast with the expectations of the Plan and the experience of the preceding five years, the primary source of growth in the volume of output during 1966-68 was production for export. Exports grew by 7.6% per annum in volume, more than five times the rate projected in the Plan for these three years, while production for domestic use expanded by 5.8% as compared with the Plan projection of 7%. The higher export volumes reflected primarily an underestimate in the Plan of the growth potentials of a number of commodities, notably palm oil, timber and tin and a host of smaller items.

14. This pattern of production was however different when price developments are taken into account. At current prices, export receipts increased over the three-year period by only 1.4% per annum, as the prices of tin, palm oil and especially rubber fell much more than expected. On the other hand, the current value of production for domestic use grew as planned by about 8% per annum, thus constituting the main source of growth in the value of output. Prices for domestic products appear to have increased a little faster than projected in the Plan, in particular in consequence of a temporary shortage of rice during 1966 and 1967.

15. The relatively low rate of growth in the volume of production for domestic use during 1966-68 was certainly not indicative of any diminution in the potential of the economy. Rather it was the result of reduced aggregate demand following the sharp drop in the price of rubber during 1967. Indeed the Malaysian economy in 1967 and 1968 appears to have been characterised by existence of under-utilised capacity. Although exact data are not available on the extent of excess capacity, persistence of the unemployment problem and evidence of under-utilised plant and equipment in many sectors of the economy suggest that it was of significant magnitude.

16. As a result of the above developments, the volume of output or GNP at constant prices rose by 6.7% per annum between 1965-68, 2.2 percentage points higher than the rate envisaged in the Plan and 0.5 points higher than the rate achieved during 1961-65. The value of national output or GNP at current prices, however, increased by only 5%, which is 0.6% higher than the Plan rate but 2.1% lower than the performance of 1961-65.

17. The rate of growth of national output, adjusted for changes in the terms of trade, yields a measure of the real income accruing to Malaysians—or their purchasing power—a measure of what Malaysians could buy in

real terms with the money they earned from productive activity. So estimated, the real gross national income of Malaysians grew by an average of 4.1% a year in 1966-68. As the rate of natural increase of population was about 3%, real income per capita grew by over 1% per annum, as compared with 0.5% projected in the Plan. Measured against the adverse influences affecting the economy during recent years, this must be viewed as a positive achievement. Table 1-1 summarises the rate of growth of output and income attained.

TABLE 1-1

MALAYSIA: AGGREGATE OUTPUT AND INCOME, 1961-68

($ millions)

	1965	Annual growth rate 1961-65 (%)	1966	1967	Estimate 1968	Annual growth rate 1965-68 (%)	Plan annual growth rate implied for 1965-68 (%)
Real Output (1965 prices)							
Production for domestic use	4,512	8.5	4,844	5,220	5,340	5.8	7.0
Exports of goods and services	4,264	4.0	4,433	4,608	5,318	7.6	1.5
Real Gross National Product	8,776	6.2	9,277	9,828	10,658	6.7	4.5
At Current Prices							
Production for domestic use	4,512	9.7	5,055	5,565	5,721	8.2	8.0
Exports of goods and services	4,264	4.6	4,289	4,139	4,442	1.4	0.1
Gross National Product	8,776	7.1	9,344	9,704	10,163	5.0	4.4
Purchasing Power (1965 prices)							
Production for domestic use	4,512	8.5	4,844	5,220	5,340	5.8	7.0
Exports of goods and services	4,264	4.6	4,289	4,139	4,442	1.4	0.1
Gain from fall in import prices			115	112	119		
Real Gross National Income	8,776	6.5	9,248	9,471	9,901	4.1	3.5

IV.—GROWTH OF CONSUMPTION AND INVESTMENT

18. With the expansion of GNP, consumption valued at current prices increased by 5.7% per annum between 1965 and 1968, with public consumption growing by 8.4% and private consumption by 5%. Valued at constant prices, total consumption increased by 4.8% per annum, thus bringing about some increase in per capita consumption despite the many economic difficulties faced during the period. With the measures being pursued by Government to even out opportunities for economic achievement, it would also have brought about somewhat more consumption and greater well-being for a significant part of the population.

19. Education and health together continued to take up the largest share of public consumption. Expenditures in these categories increased by over 30% between 1965 and 1968. Significant progress was made in extending education and health facilities into the rural areas, thus increasingly equipping Malaysians from all walks of life for effective participation in the process of economic and social development.

20. However, the rate of growth in the value of total consumption during 1966-68 was 1.2% lower than in the period 1961-65 because of the much lower rate of growth of public consumption. The latter was over 12% per annum in 1961-65 compared with 8.4% for the period under review, reflecting in large part the substantial build-up of education and health facilities and the enhancement of the nation's defence and internal security capabilities in the earlier period. The rate of growth of total consumption for the period under review was also lower than the rate envisaged in the Plan. Here the explanation is primarily in respect of private consumption, where the actual rate was 5% per annum as opposed to the Plan projection of 6.4%. National savings turned out to be much higher than anticipated in the Plan.

21. Gross investment expanded by 3.1% per annum between 1965 and 1968 compared with the Plan target of 4.2%. Having increased by 6.3% annually, private investment fell only slightly short of the Plan projection. The course of private investment during the period dramatically illustrates the intimate and traditional relationship of private investment with exports. With the tremendous growth of exports in 1965, the large resources generated enabled investment to be stepped up by 11% in the following year. But together with the insignificant increase of exports in 1966 and a fall in absolute terms in 1967, private investment only increased by about 4% annually in 1967 and 1968. Investment in land, buildings, construction, machinery and equipment recorded trends which were generally similar to that for all private investment. However, there appeared to be a continuing decline in investment in perennial crops. Although there were significant increases in the planting of oil palm, these were more than offset by the lower rate of growth of investment in rubber, following the substantial progress already reached in rubber replanting.

22. The Plan allocation of public development expenditure in Malaysia, amounting to $4,551 million, is summarised in Table 1-2. Out of this, a total of $3,570 million was to be expended on physical capital formation in the public sector. The Plan projected a constant absolute amount of $714 million per annum, making a total of $2,142 million for the three-year period 1966-68. Estimated actual physical capital formation in the public sector was $1,739 million in 1966-68. Thus only 81.2% of the target was achieved.

23. In accordance with the principles set out in the Plan with respect to the allocation of public development expenditure, emphasis was given to projects designed to increase productivity and investment in primary and secondary industries. Thus projects in support of agricultural and industrial development accounted for one-third of public development

expenditure in 1966 to 1968. The financial and physical progress of projects in these categories was mixed. Among others, the land settlement schemes of the FLDA, drainage and irrigation projects, the establishment of industrial estates and the industrial projects of MARA recorded satisfactory progress. However, there were shortfalls in respect of smallholder rubber replanting and the research, extension and promotional programmes for agricultural and livestock production.

24. Infrastructure development in East Malaysia proceeded apace. In West Malaysia, however, a considerable number of projects in the transportation sector was held back pending the findings of the Malaysian Transport Survey, undertaken during the period with the assistance of the United Nations Development Programme and the World Bank. In the sphere of social development, investment in educational facilities was behind schedule as arrangements proceeded for obtaining capital assistance from the World Bank. Satisfactory progress was achieved with investment in medical and health facilities.

25. Taken together, real consumption and investment grew at a slower rate than planned, in consequence of which there was a markedly smaller improvement in the volume of goods and services produced locally for domestic use. Nevertheless, the annual average rate of growth of real output was well in excess of the Plan target, primarily because of a much higher expansion of goods and service exports.

26. At current prices, consumption and investment also grew less rapidly than foreseen. Again, however, the growth in the value of national output exceeded that planned because of higher export earnings, despite export price movements which were a good deal more adverse than assumed in the Plan. Import price levels were below those originally anticipated.

V.—FINANCING OF NATIONAL EXPENDITURE

27. With the value of national output rising by 5% per annum, private and public consumption increasing by 5.7% and net transfer payments abroad rising by 27%, gross national savings expanded by 0.8% per annum, as shown in Table 1-3. The trend of savings, however, was uneven during the period. After a decline between 1966 and 1967, savings rose substantially in 1968. While personal savings and producers' retained income declined between 1966 and 1967, following sluggishness in export growth in 1966 and a drop in export earnings in 1967, Government savings increased markedly in 1967 as a result of tax increases that year, but were insufficient to prevent gross national savings from falling during the two-year period. In 1968, producers' retained income and personal savings recovered sufficiently to more than offset reduced Government savings, in reflection of the fact that tax receipts in any one year are computed on the basis of income earned in the preceding year.

TABLE 1-2

MALAYSIA: SECTORAL ALLOCATION OF PUBLIC DEVELOPMENT EXPENDITURE, 1966-70

($ millions)

Sectors	Plan target 1966-70	Estimated expenditure 1966-68	Achievement %	Revised Plan target 1966-70	Balance to complete 1969-70
Agriculture and Rural Development	*1,086.6*	*556.0*	*51.2*	*1,177.9*	*621.9*
Agriculture	267.5	158.7	59.3	342.7	184.0
Animal Husbandry	33.8	11.5	34.0	29.0	17.5
Fisheries	22.3	4.7	21.1	21.7	17.0
Forestry	12.4	8.1	65.3	21.4	13.3
Drainage and Irrigation	332.7	185.6	55.8	349.9	164.3
Land Development	375.9	172.5	45.9	393.0	220.5
Others	42.0	14.9	35.5	20.2	5.3
Mining	*1.3*	*.4*	*30.8*	*.8*	*.4*
Mines	.5	—	—	—	—
Geological Survey	.8	.4	50.0	.8	.4
Industrial Development	*114.5*	*90.4*	*79.0*	*133.9*	*43.5*
MIDF	16.0	16.0	100.0	16.0	—
Industrial Estates	14.0	18.0	128.6	22.6	4.6
NISIR	5.0	.3	6.0	2.3	2.0
FIDA	5.0	2.2	44.0	6.0	3.8
MARA (1)	70.0	48.0	68.6	78.4	30.4
Borneo Development Corp. Ltd	4.2	2.4	57.1	4.0	1.6
Others	.3	3.5	1,166.7	4.6	1.1
Transport	*546.0*	*332.5*	*60.9*	*705.7*	*373.2*
Roads and Bridges	389.5	192.1	49.3	430.9	238.8
Railways	21.3	35.5	166.7	65.3	29.8
Civil Aviation	21.5	41.5	193.0	64.3	22.8
Ports	113.7	63.4	55.8	145.2	81.8
Communications	*205.4*	*103.2*	*50.2*	*236.9*	*133.7*
Telecommunications	142.5	74.4	52.2	173.0	98.6
Broadcasting	53.0	25.8	48.7	52.6	26.8
Meteorological Service	.3	.6	200.0	1.6	1.0
Posts	9.6	2.4	25.0	9.7	7.3
Utilities	*786.3*	*453.6*	*57.7*	*793.5*	*339.9*
Electricity	584.3	359.0	61.4	548.9	189.9
Water Supplies	202.0	94.6	46.8	244.6	150.0
Education and Training	*440.8*	*191.1*	*43.4*	*391.5*	*200.4*
Health and Family Planning	*189.5*	*106.5*	*56.2*	*178.9*	*72.4*
Social and Community Services	*315.1*	*175.8*	*55.8*	*323.8*	*148.0*
Housing	188.1	103.5	55.0	203.5	100.0
Major Sewerage Schemes	21.6	1.0	4.6	5.0	4.0
Others	105.4	71.3	67.6	115.3	44.0
General Administration	*126.2*	*87.7*	*69.5*	*205.2*	*117.5*
Sub-total: (Non-Security)	3,811.7	2,097.2	55.0	4,148.1	2,050.9
Defence	600.0	345.4	57.6	555.3	209.9
Internal Security	139.0	66.5	47.8	135.5	69.0
Sub-total: (Security)	739.0	411.9	55.7	690.8	278.9
TOTAL	4,550.7	2,509.1	55.1	4,838.9*	2,329.8

* Allowing for shortfalls, the revised Plan target is $4,477 million.

(1) Excludes capital cost of MARA Institute of Technology, which is included under Education and Training.

TABLE 1-3

MALAYSIA: GROSS NATIONAL SAVINGS, 1965-68

($ millions)

	1965	1966	1967	1968
Producers' retained income	855	899	752	821
Personal savings	456	434	414	461
Government savings	413	401	548	482
Sub-total (national savings)	1,724	1,734	1,714	1,764
Balance on goods, services and transfers ..	−60	8	54	62
Gross national savings plus balance on goods, services and transfers (equals gross investment)	1,664	1,742	1,768	1,826

28. With total gross investment having increased by 3.1%, the real resource balance of the economy moved from a surplus of $60 million at the end of 1965 to a small deficit of $62 million at the end of 1968. But for the sharp drop in the rubber price, there would have been a surplus. In the event, the resulting gap between investment and savings was covered by an inflow of resources from abroad amounting to the deficit on goods, services and transfers in the current account of the balance of payments. Thus while Malaysia moved from a net position of lending her trade surplus to foreigners to one of drawing a little from abroad for the purpose of investing in her own economic and social development, a far smaller volume of foreign resources was attracted than envisaged by the Plan, which projected that some $340 million net would be drawn into Malaysia in 1968. These trends in national expenditure and product and the consequential developments in savings and the foreign balance are shown in Table 1-4.

TABLE 1-4

MALAYSIA: NATIONAL EXPENDITURE AND ITS FINANCING, 1965-68

($ millions, current prices)

	1965	1966	1967	1968
GNP	8,776	9,344	9,704	10,163
Less: Consumption expenditure	6,981	7,501	7,844	8,253
Less: Net transfers abroad	71	109	146	146
Gross national savings	1,724	1,734	1,714	1,764
Less: Gross investment	1,664	1,742	1,768	1,826
Foreign balance on goods, services and transfers	+60	−8	−54	−62
Gross national savings/GNP ratio	19.6	18.6	17.7	17.4
Gross investment/GNP ratio	19.0	18.6	18.2	18.0

VI.—BALANCE OF PAYMENTS

29. Table 1-5 illustrates the factors accounting for the size of the foreign balance on goods, services and transfers, as well as the manner in which it was financed. In the Plan, it was expected that 1966 would be the year of re-adjustment to adverse external trade developments. Merchandise export receipts were projected to decline by almost 2% that year. Instead exports rose in 1966, and 1967 turned out to be the year of re-adjustment when export receipts fell by 3.4%. Still, as already observed, cumulative exports during 1966-68 exceeded those planned by a significant amount.

30. Goods and service imports at current prices grew annually by 1.8% as against the Plan projection of 3.9%. Progress in import substitution played a part in this development. While capital goods imports remained at about one-half the value of total fixed investment, intermediate and final consumer goods imports as a proportion of private consumption fell from 42.1% in 1965 to 35.6% in 1968. More important, however, was the fact that the sharp reduction in the rate of growth of GNP during 1966-68 relative to the boom year of 1965 and the good years of 1963-64 resulted in a considerable dampening of import demand. In fact, imports of goods and services declined absolutely in 1967.

31. With these trends in exports and imports, the value of the merchandise surplus for each of the years 1966-68 was higher than any recorded since 1962. The cumulative balance turned out to be more than two and one half times the amount projected in the Plan. Although net service payments increased substantially as a result of the withdrawal of British military forces from the country, which was not foreseen by the Plan, and net transfer payments rose markedly as the targets for foreign grant aid were far from realised, the balance on goods, services and transfers was in deficit by a relatively small amount in each of the three years.

TABLE 1-5

MALAYSIA: BALANCE OF PAYMENTS, 1965-68

($ millions)

Current Account	*1965*	*1966*	*1967*	*1968*	*Cumulative Total 1966-68*	*Plan Cumulative Total 1966-68*
Exports f.o.b.	3,752	3,808	3,679	4,005	11,492	10,818
Imports f.o.b.	3,226	3,254	3,149	3,352	9,755	10,212
Merchandise Balance	527	554	530	653	1,737	606
Services (net)	−396	−453	−438	−569	−1,460	−1,320
Balance on Goods and Services ..	+131	+101	+92	+84	+277	−714
Transfers (net)	−71	−109	−146	−146	−401	−127
Balance on Goods, Services and Transfers	+60	−8	−54	−62	−124	−841

Capital Account	*1965*	*1966*	*1967*	*1968*	*Cumulative Total 1966-68*	*Plan Cumulative Total 1966-68*
Long-term capital inflow (net):						
Private	+190	+160	+135	+150	+445	+600
Public	+100	+7	+126	+89	+222	+552
Monetary movements including official short-term capital inflow	−23	+160	+64	+30	+254	+289
Errors and omissions including private short-term capital movements.. ..	−327	−319	−271	−207	−797	−600

32. Thus export growth over the three-year period proved sufficient in countering the effects of the sharp fall in the rubber price, the initial impact of British withdrawal and the unrealised expectations for foreign grant aid. It is, however, important to re-emphasise that this development was also the result of some under-utilisation of capacity of the economy for expansion, in consequence of which imports remained at a low level. In looking to the future, accelerated economic growth will almost certainly necessitate more rapid growth of imports both of capital and intermediate goods and of selected consumer goods.

33. The small deficits in the current account of the balance of payments during 1966-68 and the consistently large errors and omissions item (which includes movements of short-term private capital) were financed in the main by long-term private and public capital. There was, however, a sizeable shortfall in the receipt of such capital. Even so, use of the country's net foreign assets and exchange reserves proved to be small relative to that anticipated originally.

34. The largest factor accounting for the shortfall in the receipt of long-term capital was in respect of foreign loans for public sector projects. Only $7 million was obtained in 1966. Much more time had to be set aside than appeared necessary at first before loans offered to Government could be committed and disbursed. The position improved in 1967-68.

35. The shortfall in private net long-term capital inflow was much less than for net foreign public loans. The shortfall in respect of the former reflected in part the influence of the drop in rubber prices on reinvestment allocations by foreign companies operating in perennial crops industries as well as the continuing decline in the acreage of European rubber estates, a decline which was not fully offset by increases in their oil palm acreages. More generally, the period was also one of relative capital scarcity abroad, where balance of payments problems were felt, a tight money market developed in the United States and Europe and continued economic difficulties affected the United Kingdom.

VII.—PUBLIC SECTOR FINANCE

36. It was shown in Section V above that the gap between investment and savings for the economy as a whole was small. The inflow of resources from abroad to cover this gap amounted to only an average of 0.4% of GNP per year. However, investment exceeded savings in the public sector and the reverse held for the private sector. In addition, the public sector had to finance a growing volume of transfer payments. Thus, the fiscal and monetary task confronting Government was the attraction of resources from the private sector through the sale of Government securities.

37. Table 1-6 summarises the financial position of the public sector. Current revenue grew by 7.6% per annum, 1.9% higher than that projected in the Plan. This arose from the large collections of income tax in 1966 following the boom of the previous year and the significant general tax increases of 1967. Current revenue as a proportion of GNP reached 21.9% in 1967 compared with 20.7% in 1966 and 20.3% in 1961. On the expenditure side, recurrent expenditure increased by 8.4% per annum, well above the Plan target, while development expenditure rose by 3.6%. Although the overall deficit between revenue and expenditure increased slightly between 1965 and 1968, the substantial revenue increases of 1966 and 1967, combined with a shortfall in development expenditure of over 10%, resulted in a deficit only 79% of that expected.

38. Capital raised through the sale of Government securities on the one hand and the use of the accumulated assets of Government on the other played the dominant role in the financing of the deficit in the public sector. The amounts so raised were approximately equal to the Plan target.

TABLE 1-6

MALAYSIA: CONSOLIDATED PUBLIC SECTOR FINANCE, 1965-68

($ millions)

	1965	*1966*	*1967*	*1968*	*Cumulative Total 1966-68*	*Plan Cumulative Total 1966-68*
Government current revenue	1,754	1,932	2,128	2,186	6,246	5,580
Government recurrent expenditure ..	1,639	1,748	1,993	2,090	5,831	5,410
Government current surplus	115	184	135	96	415	170
Surplus of public corporations ..	44	46	49	64	159	216
Public sector current surplus	159	230	184	160	574	386
Development expenditure	753	813	785	837	2,435	2,730
Overall deficit	−593	−583	−601	+677	−1,861	−2,344

	1965	1966	1967	1968	Cumulative Total 1966-68	Plan Cumulative Total 1966-68
Sources of financing—						
Net domestic borrowing	388	294	465	436	1,195	1,309
Net foreign borrowing	100	42	125	98	265	525
Foreign grants	59	94	51	45	190	510
Asset use and others	46	153	−40	98	211	*
Total ..	+593	+583	+601	+677	+1,861	+2,344

VIII.—THE GROWTH OF MAJOR SECTORS OF THE ECONOMY

39. Comprehensive annual data on the industrial origin of the Gross Domestic Product (GDP) in volume terms is as yet not available for East Malaysia. The following paragraphs treat West Malaysia separately from East Malaysia.

40. The economies of both *Sabah and Sarawak* are essentially export oriented. The share of log output in the value of total production in Sabah is substantial. It accounts for about one-half of the GDP of the State. The State is thus very much a single industry economy. However, with increasing planting of oil palm, some diversification is being effected. The economy of Sarawak is more diversified. Log exports constitute about 12% of GDP with manufacturing, largely sawmilling and oil refining, accounting for another 15%.

41. GDP at current prices grew by 12% per annum in Sabah and 9% in Sarawak during 1961-67, very rapid rates of growth indeed. In both States, especially in Sabah, the rapid rate of growth of aggregate output was the result of a tremendous expansion in the volume of timber exports. However, prices of these commodities as well as the general domestic price level also increased. Only part, therefore, of the increase in GDP was attributable to the growth in the volume of output.

42. For *West Malaysia,* available estimates up to 1967 of the industrial origin of the GDP are presented in Table 1-7 in terms of constant 1964 prices. Agriculture (including forestry and fishing), manufacturing, wholesale and retail trade and services comprise the major sectors of the West Malaysian economy. Together they account for about two-thirds of the total volume of output. The largest is the agricultural sector, whose rate of growth was markedly higher in the first two years of the Plan than in the 1961-65 period. This reflected in part the growth of rubber output generated by replanting in the fifties and, most importantly, the dramatic expansion in palm oil and kernel production and in forestry and fishing output.

* The Plan target for net domestic borrowing was framed to include use of the accumulated assets of the public sector.

TABLE 1-7

WEST MALAYSIA: GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN, 1961-67

($ millions, constant 1964 prices)

	1961	1965	Average annual rate of growth 1961-65	1966	1967	Average annual rate of growth 1965-67
Agriculture, Forestry and Fishing	1,706	1,943	3.3	2,066	2,155	5.3
Rubber Planting	909	1,012	2.7	1,070	1,109	4.7
Other Agriculture	528	530	0.1	557	561	2.9
Livestock	87	172	18.6	176	180	2.3
Forestry	73	93	6.2	106	117	12.2
Fishing	109	136	5.7	157	188	17.6
Mining and Quarrying	477	532	2.8	547	562	2.8
Manufacturing	444	702	12.1	790	860	10.7
Construction	206	318	11.5	330	340	3.4
Electricity, Water and Sanitary Services	82	129	12.0	144	160	11.4
Transport, Storage and Communications	201	247	5.3	255	268	4.2
Wholesale and Retail Trade	902	1,052	3.9	1,082	1,120	3.2
Banking, Insurance and Real Estate	69	108	11.9	118	129	9.3
Ownership of Dwellings	255	295	3.7	297	310	2.5
Public Administration and Defence	351	462	7.1	484	505	4.5
Services	685	912	7.4	962	1,010	5.2
Gross Domestic Product at factor cost	5,378	6,700	5.6	7,075	7,419	5.2

43. Manufacturing recorded a high rate of growth as import substitution continued and the efforts of industrialists to export manufactured goods were intensified. Nevertheless the growth of output in this sector was slower than in the previous five years, primarily because of slack in the economy in 1967 (and early 1968).

44. Slackness of the economy due to external factors also affected the growth of wholesale and retail trade and services. In fact, apart from the agricultural industry, the output from which is for both export and domestic subsistence, all other sectors of the economy experienced lower rates of growth during 1966 and 1967 compared with the 1961-65 period. The construction industry was hardest hit as a number of residential building, manufacturing, infrastructure and public construction projects were deferred. With some recovery in the price of rubber and higher aggregate demand in 1968, however, there appears to have been a resumption of growth in all sectors.

45. The relative contribution of all sectors of the economy to GDP remained essentially similar to the position at the end of 1965. Compared with 1961, however, discernible changes were effected to the basic structure of the economy and to its pattern of production. In harmony with expected changes in the course of accelerated economic development and modernisation, the contributions of agriculture and manufacturing to total output

increased continuously in absolute terms but with the share of agriculture declining and that of manufacturing increasing. Within agriculture itself, quite significant changes took place in response to efforts to diversify the agricultural economy, as a means of enhancing the contribution of the sector towards the growth of national income and employment. Although rubber output grew sizeably, it was exceeded by that of a number of other commodities, especially palm oil, timber and fish.

IX.—EMPLOYMENT GROWTH

46. Preliminary estimates of the size of the labour force and employment in Malaysia for 1965 were given in the Plan document. These indicated that unemployment in that year was just under 5% of the labour force. However, taking into account more precise indicators which have become available since the Plan was published, it now appears that unemployment was nearer 6% of the labour force at the end of 1965. Table 1-8 summarises the relevant details. In addition, significant degrees of underemployment exist in agriculture, commerce and the service industries, implying that if the economy does not grow fast enough not only will overt unemployment expand but an increasing number of those employed will be driven into greater underemployment.

TABLE 1-8

MALAYSIA: LABOUR FORCE AND EMPLOYMENT ESTIMATES, 1965

('000)

	West Malaysia	*East Malaysia*	*Total*
Labour force	2,774	568	3,342
Employment	2,599	548	3,147
Unemployment	175	20	195
Unemployment as % of labour force ...	6.3	3.5	5.8

47. East Malaysia can be regarded as having no unemployment problem in as far as practically all those seeking jobs can find employment. In fact, Sabah suffers from some shortage of labour. In response to Sabah's needs the Malaysian Migration Fund Board was established to facilitate an inflow of workers to the State from West Malaysia. Since it began its operations in 1967, over 2,000 workers and their dependents have migrated to Sabah under the Board's auspices.

48. Until the final results of the "Socio-Economic Survey of Households in West Malaysia", initiated in June 1967, become available, a precise assessment of the West Malaysian employment situation in the first years of the Plan is not possible. Therefore, derived evidence has had to be adduced in an attempt to appraise the situation in qualitative fashion.

49. The Plan projected a rate of growth of employment of 2.8% per annum or the creation of some 380,000 new jobs during the five year period. It is not likely that this rate of growth has in fact been achieved during the period under review. In part it appears that output growth has been associated more with enhanced productivity than increased employment in sectors like rubber, manufacturing and transport. Moreover, the rate of investment growth itself fell short of its targets.

50. This kind of development in fact reflects one of the most serious paradoxes of economic growth. There can be no gainsaying the fact that only with progressive increases in productivity can high and sustained economic growth be underpinned. Yet increased labour productivity, taken by itself, may mitigate against solving the unemployment problem in the short run. Given these facts, Malaysia has no choice but to step-up considerably its rate of growth of investment and output if significant advances are to be made in alleviating unemployment and underemployment.

51. As shown in Table 1-9, the major sources of employment in the economy are the agriculture, service and manufacturing sectors. In agriculture, the implementation of FLDA projects and drainage and irrigation works, which result in new acreages being brought into cultivation, progressed as planned. However, there was only limited success with the land development schemes of State Governments and only a beginning was effected in accelerating land development by the private sector. It is estimated that the number of full-time jobs created in the agricultural sector probably accounted for not more than three-fourths of the number which would have been required to meet increases in the agricultural labour force. Government has already initiated measures to meet the need for a rapid pace of new land development in the future.

52. With substantial progress having been made earlier in establishing the defence, administrative and educational infrastructure, the rate of growth of Government employment has been much less rapid in the last three years as compared with the situation in the early sixties. Taking the service sector as a whole, the indications are that employment in that sector followed the rate of growth of national output.

53. Job creation in manufacturing in the industries covered by the annual Survey of Manufacturing appears to have increased the fastest, perhaps by about 5% a year. However, in view of the small size of the sector and the capital intensiveness of industrial operations relative to other sectors and activities in the economy, the increase in the number of jobs would not have contributed significantly to the alleviation of the unemployment problem.

54. Overall, it does not appear that the Plan employment target for the period under review was achieved. As a result, unemployment remains a serious problem, especially in the major towns, among youth and among women of all ages. In the next two to three years, the problem is likely to be exacerbated following the withdrawal by Britain of her military forces in this area. This would affect about 30,000 Malaysians employed by the British forces in Malaysia itself as well as in Singapore. The need to accelerate investment in land development and in manufacturing operations is thus paramount if overt unemployment is to be reduced and if advances are to be made in containing underemployment in the agricultural and service sectors.

TABLE 1-9

WEST MALAYSIA: EMPLOYMENT SITUATION, 1965

	Numbers ('000)	*Share %*
Agriculture	1,310	50.4
Mining	61	2.3
Manufacturing	182	7.0
Other Industries	162	6.2
Services	884	34.0
Total Employment	2,599	100.0

X.—INTEGRATION

55. A major objective of the Plan is to promote the integration of the peoples and States of Malaysia by embarking upon a development plan explicitly designed to promote the welfare of all. Specifically, this objective is being implemented through: firstly, the provision of special facilities to increase the income-earning capacity of those groups in Malaysian society who are adversely affected by inequality in the distribution of economic opportunity; secondly, the establishment of policies, institutions and facilities which contribute towards greater integration of the different parts of the country with each other; and thirdly, closer harmonisation of activity in an increasing number of fields in the economic and social life of the nation. The following paragraphs indicate the efforts made in respect of each of the major parts of this objective and the progress attained so far. It should however be recognised that, given the intangible nature of this objective and the relatively short period which has elapsed since the inception of the Plan, complete and definitive assessment must await a rather longer period of experience.

56. By and large, it is the rural smallholders, small fishermen and such groups who receive much lower private incomes and also fewer public services than the rest of the population. Continuing attention was thus given to the implementation of public sector programmes designed to raise progressively the productivity of the human and physical resources in the rural economy as well as to modernise living conditions there.

57. In 1966-68 substantial amounts of total development expenditure by the public sector went directly towards rural development. Some of the physical results of this investment include the planting of 64,300 acres by the FLDA; the provision of drainage and irrigation facilities to an additional 250,000 acres in West Malaysia, 9,000 acres in Sabah and 13,200 acres in Sarawak; new planting and replanting of rubber by smallholders on more than 180,000 acres in West Malaysia thus raising the proportion of smallholder acreage under high-yielding rubber from 50% in 1965 to about 56% in 1967; the application of subsidised fertiliser to about 600,000 acres of padi land in West Malaysia during the three-year period; and the replanting and rehabilitation of coconut and fruit trees over 10,000 and 25,000 acres respectively. During the period, a total of more than 1,600 secondary school classrooms were constructed in the rural areas and enrolments rose by more than 95,000. Of special significance for rural incomes in the immediate future was the commencement of work on the Muda River and Kemubu drainage and irrigation schemes, which between them will enable over 300,000 acres of padi land to be double-cropped, and the FLDA Jengka Triangle project, covering 150,000 acres of which 111,000 acres will be developed for palm oil and rubber production. This is the largest and most significant land settlement project ever undertaken by the FLDA.

58. Overall physical progress in the implementation of rural development projects was highly satisfactory but the performance of individual programmes varied. Only limited success was recorded in respect of land development schemes other than those of the FLDA. A considerable amount of work will have to be undertaken by the Federal Land Consolidation and Rehabilitation Authority to rehabilitate those fringe alienation schemes which have not succeeded so far but have prospects of viability. A thorough re-examination of the basis and principles of implementation underlying the programme is being undertaken before additional projects are embarked upon. Agricultural education is another area where progress has fallen behind schedule. Only one agricultural school for the training of operative personnel was established during the period under review. However, with the assistance of the World Bank, three more such schools will be established before the close of the Plan period. Excellent progress was achieved by the College of Agriculture at Serdang. Student population at the College grew from 105 in 1965 to 392 in 1967.

59. While precise information on the effects that rural investment in the past has had on rural incomes during the period under review is not available, it is clear that adverse price developments have in some measure offset the output increases that have begun to accrue.

60. Satisfactory output growth was recorded by farmers engaged in palm oil and kernel, copra and pepper production, and in fishing and forestry. It is unlikely, however, that meaningful income gains were recorded for other farmers. With replanting, higher yields per acre were realised by rubber smallholders, but they suffered from the sharp fall in rubber prices between the beginning of 1967 and the early part of 1968. With respect to padi cultivation, double-cropped acreage in West Malaysia grew from about 90,000 acres in West Malaysia in 1965 to 220,000 acres in 1968. Yields per acre harvested increased by 5% in the two-year period 1964/65 to 1966/67 but severe floods in some padi-growing areas resulted in the proportion of planted areas harvested being only 93% on the average during the period compared with 98% for the previous three years. Taking the rural sector as a whole the drop in rubber prices and the occurrence of floods during the period did not permit rural incomes to increase to the extent expected.

61. In assessing the progress which has been made in the introduction, establishment and development of policies, institutions and facilities which go towards integrating and unifying the different parts of Malaysia with each other—efforts which necessarily have a long gestation period—recent developments must be seen in the perspective of a period longer than that which is the specific concern of the Mid-Term Review.

62. In the past, one of the most important factors accounting for the isolation of different parts of the country from one another was the absence of transportation links. Colonial economic development resulted in a number of rather isolated export-import economies, with highways oriented to the major port facilities. Thus in West Malaysia development centred around Kuala Lumpur, Penang, Ipoh and Malacca and there were hardly any transport connections between the west and east coasts. Similarly in East Malaysia, economic development and the transport system largely concentrated around the port towns of Kuching, Sibu, Kota Kinabalu, Sandakan and Tawau.

63. Since the end of the Second World War, however, and especially since Independence in 1957, road connections were established between the west and east coasts of West Malaysia as well as between the major towns on the east coast. The air transport network also emerged, connecting major urban areas domestically and linking West and East Malaysia. Thus, the transport network has expanded from simply servicing the port economies of the west coast to connecting most production areas and consumption

centres with each other. Illustrative of the progress towards closer integration is the fact that in addition to the main centres of Port Swettenham/ Kuala Lumpur, Penang and Ipoh for the distribution of exports, imports and domestically produced goods, secondary centres have also emerged at Kuantan, Kota Bharu, Malacca, Port Dickson and Johore Bahru.

64. In terms of the transport network East Malaysia, on the other hand, remains largely unintegrated. There is little inter-connection between economic units in the two States except for the west coast of Sabah. However, since the establishment of Malaysia, a number of projects were initiated which will improve the position shortly. In Sabah, the west coast road is being improved to provide efficient connections between major population centres and their hinterland while work on linking Kota Kinabalu and Sandakan has started with the assistance of the Australian Government. In Sarawak, the improvement of the road linking Kuching with Sibu is underway. Eventually, this road will be extended to connect all the major centres of the State.

65. Together with these efforts for physical integration within West and East Malaysia, significant strides have also been taken to integrate the two territories economically through the establishment of a Malaysian Common Market. As a result of a number of Customs Duties Exemption (Goods of Malaysian Origin) Orders, almost all locally manufactured goods can now be shipped to any part of Malaysia without payment of regional import duties. And with the Customs (Malaysian Common Tariffs) Order of 1967, over 80% of all imported goods are now subject to common external tariffs.

66. As a result, trade between West and East Malaysia grew from $71.5 million in 1965 to $125.3 million in 1968. A scheduled cargo and passenger coastal shipping service now carries traffic between the growing industrial centres of West Malaysia and East Malaysia. From an occasional sailing in 1963, service has increased to two regular sailings a week. While East Malaysia's imports of goods and supplies come mainly from Singapore, a growing volume is shipped from West Malaysia. In addition, scheduled passenger traffic by air between East and West Malaysia has also developed significantly over the last few years.

CHAPTER II

Economic Prospects for 1969-70

67. Chapter I provided an assessment of the progress of development during the first three years of the Plan. This Chapter examines the national potentials for continued development, in particular during the remaining period of the Plan, and indicates the broad lines which will be taken by Government to develop these potentials.

I.—PROSPECTIVE SOURCES OF GROWTH

68. It would be useful first to consider the extent to which resources for economic growth could accrue to the nation from exports and from production for domestic use in the next two years. Production of goods and services for export is projected to grow by 2.8% annually over the next two years. The value of these exports, however, will increase by 2.6% per annum in view of expected price declines for a number of major export commodities. Nevertheless, goods and service exports at current prices will amount to about $4,700 million in 1970. This is about 10% more than projected in the Plan. Detailed projections for commodity exports in 1969 and 1970 are presented in Table 2-1.

69. *Rubber,* which will continue to be the country's main export earner for some time, will yield lower earnings than envisaged by the Plan, primarily because of lower prices. There will also be a small shortfall in output growth because replanting of rubber estates with oil palm has been more rapid than expected.

70. As a result of the sharp decline in the price of *tin* during 1968, export quotas were imposed under the International Tin Agreement. The production of tin is projected to decline somewhat but even so it will be higher than originally foreseen. Re-working of some abandoned mines and opening of some new ones will more than offset the loss of output from mines that have become exhausted. This increase in output will also more than offset the lower prices relative to the original expectations. In the longer term, there is evidence that off-shore prospecting which is now being initiated will lead to a new boost in production.

TABLE 2-1

MALAYSIA: COMMODITY EXPORT PROJECTIONS, 1969-70

	1969	*1970*
I. MAJOR EXPORT COMMODITIES:		
Rubber—		
Production ('000 tons)	1,152	1,200
Increase of production (%)	7.9	4.2
Imports ('000 tons)	63	66
Total Available ('000 tons)	1,215	1,266
Export Volume ('000 tons)	1,200	1,250
Consumption ('000 tons)	15	16
Export Value ($ million)	1,478	1,484
F.O.B. Unit value (*c.* per lb)	55	53
Tin—		
Production ('000 tons)	71	70
Increase of production (%)	−4.1	−1.4
Imports ('000 tons)	5	4
Total Available ('000 tons)	76	74
Export Volume ('000 tons)	76	74
Export Value ($ million)	699	681
F.O.B. Unit value ($ per ton)	9,200	9,200
Round Timber—		
Production ('000 tons)	10,410	11,325
Increase of production (%)	9.2	8.8
Imports ('000 tons)	—	—
Total Available ('000 tons)	10,410	11,325
Export Volume ('000 tons)	6,300	6,908
Apparent Consumption and Stock Changes ('000 tons)	4,110	4,417
Export Value ($ million)	599	660
F.O.B. Unit value ($ per ton of 50 cu ft)	95.0	95.5
Sawn Timber—		
Production ('000 tons)	1,806	1,991
Increase of production (%)	8.5	10.2
Imports ('000 tons)	6	6
Total Available ('000 tons)	1,812	1,997
Export Volume ('000 tons)	846	961
Apparent Consumption and Stock Changes ('000 tons)	966	1,036
Export Value ($ million)	162	187
F.O.B. Unit value ($ per ton of 50 cu ft)	192	195

	1969	1970
Iron Ore—		
Production ('000 tons)	5,220	5,330
Increase of production (%)	0.2	2.1
Imports ('000 tons)	—	—
Total Available ('000 tons)	5,220	5,330
Export Volume ('000 tons)	5,000	5,000
Apparent Consumption and Stock Changes ('000 tons)	220	330
Export Volume ('000 tons)	5,000	5,000
Export Value ($ million)	105	105
F.O.B. Unit value ($ per ton)	21	21
Palm Oil—		
Production ('000 tons)	324	410
Increase of production (%)	17.0	26.5
Imports ('000 tons)	—	—
Total Available ('000 tons)	324	410
Export Volume ('000 tons)	319	402
Apparent Consumption and Stock Changes ('000 tons)	6	8
Export Value ($ million)	128	157
F.O.B. Unit value ($ per ton)	400	390
Palm Kernels—		
Production ('000 tons)	74	93
Increase of production (%)	17.5	25.7
Imports ('000 tons)	—	—
Total Available ('000 tons)	74	93
Export Volume	45	59
Apparent Consumption and Stock Changes ('000 tons)	29	34
Export Value ($ million)	16	18
F.O.B. Unit value ($ per ton)	350	300
Total Major Exports—		
Export Value ($ million)	3,187	3,292
Growth rate (%)	2.1	3.3
II. Minor Export Commodities:		
Export Value ($ million)	1,018	1,089
Growth rate (%)	7.0	7.0
III. Total Commodity Exports:		
Export Value ($ million)	4,205	4,381
Growth rate (%)	3.2	4.2

71. However, lower earnings from rubber will be more than offset by the increases projected for other major and minor export commodities. The export growth for a number of these commodities has been spectacular, in particular round and sawn timber and palm oil.

72. With rising world *per capita* income, sustained demand at higher prices for tropical *timber* can be anticipated. In the light of the industry's demonstrated capacity to respond vigorously to this demand, production is expected to show strength for both round and sawn timber.

73. Projected output of *palm oil* in 1970 will be almost 60% greater than the Plan target. However, prices are likely to be some 22% lower. Market prospects are heavily dependent upon the supplies of competing fats and oils, particularly soybean and sunflower seed oil and, to a lesser extent, fish oil. The expected reduction in 1969 of supplies of sunflower seed and possibly fish oil is likely to be nearly offset by moderately large availabilities of rapeseed oil, palm oil and soybeans. Given this prospective supply situation, there is little likelihood of significant recovery of palm oil prices from current levels; in fact continued weakness in the world's fats and oils market is expected at least through 1975.

74. Although current and prospective palm oil prices are disconcerting, they offer no cause for a slowdown in the cultivation of the crop. There is considerable scope for strengthening the competitive position of Malaysian palm oil in the world's fats and oils markets by a variety of measures. These include market development and promotion and continued research aimed at increasing yields, reducing development and production costs, and increasing returns per acre through intercropping.

75. In the *minor exports* category, comprising almost one-quarter of total exports, there are a number of items which are becoming more and more significant, including oil products from Sarawak, cement, rubberwood and especially plywood and veneer. With Malaysia's stable domestic price level and exchange rate, strong trade links with the outside world and aggressive entrepreneurs, such exports will rapidly become of major importance provided continuing attention is given to cost-reducing innovations.

76. The main contribution to national output will come from production for domestic use. Between 1961 and 1967, the volume of production for domestic use expanded by 8.2% per annum and, as domestic price levels increased somewhat, the value of production for the domestic market rose annually by over 10%. The expansion of capacity in support of this growth is reflected in the substantial investment undertaken during the period 1961-65.

77. In 1968, preliminary estimates appear to indicate that the volume and value of production for domestic use grew by less than 3%—a performance which was below that of any other year in the period 1961-68. Although this may be an underestimate, it is clear that the impact of the low level of domestic demand in 1967 and the early part of 1968 was indeed severe in its depressive effects on the economy. Symptomatic of these developments

was the emergence of under-utilised capacity in construction and manufacturing. In mining and agriculture, the position is less clear but moderate increases in demand even in these sectors could easily have been met without creating bottlenecks. As a result, the employment situation is unlikely to have been improved.

78. With the upturn of the economy in the last quarter of 1968, however, capacity began to be more fully utilised. It is a reasonable expectation that this pick-up will gather momentum and that in 1969 and 1970 the growth of production for domestic use will approach the pace of earlier years. On this basis production for domestic use is planned to expand annually by 8.2% at constant prices and 9.2% at current prices. As the country looks to the immediate future, there is every reason to believe that existing capacity and the inherent natural and human resources of the economy will be more fully exploited to increase current production and expand capacity for future increases in output. Not to do so would be to forego the opportunities for growth in Malaysia. Like most other developing countries, Malaysia has a large reservoir of unemployed and under-employed labour which could be channelled into productive activity. The country possesses a substantial amount of virgin land, of potentially high productivity, to support accelerated agricultural and industrial development. The economy is also largely free from those distortions and bottlenecks which hinder the process of economic growth; the rate of exchange is at an equilibrium level, the balance of payments and reserve position are strong and there is no inflation.

79. Given the existence of excess capacity and the plentiful availability of natural resources, the country is in a position to expand economic activity without running into general capacity and supply constraints. The policy objective for the remainder of the Plan period is therefore to move the economy towards fuller utilisation of its opportunities by policies which at the same time will ensure that continued balance of payments and financial stability are maintained.

II.—INVESTMENT TARGETS

80. A key element in any strategy of growth is perforce a rapid rate of investment. It is particularly necessary in the remaining years of the Plan. Private investment and exports were the main forces for growth during 1956-60, increasing by 16.3% per annum and 4.3% per annum respectively. In the subsequent five years, with the emphasis on rural development and the expansion of the physical infrastructure of the country, the main force for growth was public investment and consumption, the total of which expanded by 14.7% per annum. But, as a result of external factors and the stringent financial situation in the public sector, all the main elements of economic growth registered performances in 1966-68 which were lower than achievements in the early sixties.

81. With the recovery that is already taking place in the economy as a result of improved export performance, the implementation of the Investment Incentives Act and the liberalisation of land alienation policies, the volume of private investment is expected to increase by over 8% in 1969 and 9% in 1970; at current prices, it will grow at a slightly faster rate.

82. As will be explained below, there is no "real" resource problem confronting the economy as a whole and the private sector in particular. There is also great entrepreneurial potential in the private sector and a well-developed, if strained, economic infrastructure in transportation, communications, water and power. And, in the large reservoir of unemployed and under-employed labour as well as the substantial amount of virgin land available, ample opportunities exist for productive investment by the private sector for import substitution and export expansion in both agriculture and manufacturing industry. With intensification in the implementation of Government's policies and investment programmes, the targets for private investment appear eminently reasonable.

83. To enable a meaningful accomplishment of most of the economic programmes and projects in the Plan, public investment has been programmed to expand each year by over 13% at constant prices and 14% at current prices in 1969 and 1970. A number of major foreign aid and programming problems having been resolved, these targets are realisable. Such expansion of public investment in 1969 and 1970 will have two very important effects. Firstly, it will support the production and investment targets for private sector development by virtue of the higher rate of spending in the economy. Secondly, and more fundamentally, achievement of these targets for the public sector in drainage and irrigation, education, research, land development and other fields will set the stage for private investment in subsequent years.

84. Underlying this strategy is the recognition that the historical dependence of private investment on exports has certain disadvantages. A stable level of investment cannot be ensured when exports fluctuate from year to year. It will therefore be an important policy objective of Government to strengthen the motivations and incentives for private investment which reflect the basic attractiveness and value of the natural and human resources of the country rather than the changing fortunes of the world market situation. Government's policies, plans and programmes are therefore designed to effect a gradual structural change in the economy to make it less dependent on exports as the generator of incentives to keep up a high rate of investment.

85. To this end, public investment will be employed not only as the main force for growth in the immediate future but also as the means for

accelerating private investment by helping to create an economic environment that will ultimately break the link between private investment and year to year changes in exports. As the backlog of economic projects in the public sector is removed, as the economy is revitalised and private investment is accelerated, it should be possible in the early seventies to place private investment again at the heart of Malaysia's development strategy and to align the growth of public investment to a pace which is more consistent with that of national output.

III.—CONSUMPTION TARGETS

86. With the rapid growth of public consumption of 12% per annum between 1960 and 1966, the process of equipping the machinery of Government to support and facilitate a high and sustained level of economic activity and to respond to the basic needs of the nation for law and order, defence, education and health facilities was largely completed. Thus it is now expected that total current consumption by the public sector in the future will increase more in line with the growth of total national output.

87. However, substantial expansion is still needed in the number of personnel engaged in technological education and in research and extension operations for agricultural, forestry, livestock and fisheries development. The value of public consumption is expected to grow by 6.8% per annum during the remainder of the Plan period.

88. Government will not underestimate the importance of aligning the rate of growth of public consumption to that of national output, for economic growth in Malaysia will not be sustained if public consumption outstrips the growth of national output indefinitely. Hence, while no restraint will be applied to Government expenditures in sectors which are of critical importance for the public good, efforts will be intensified to modernise the machinery of Government and enable it to discharge its functions more productively.

89. From the income which is likely to accrue to individual persons in the economy as a whole from external trade and from production for domestic use, the value of private consumption is expected to increase by 5% annually in 1969 and 1970. The Plan projected a constant rate of growth of private consumption of 6.4% per year, a rate well above the Plan's projection of the growth of GNP. Projections for 1969 and 1970 and for 1966-70 as a whole, at 5% per annum, are therefore a good deal less than was foreseen in the Plan. One reason for this shortfall is that voluntary savings are now expected to be higher.

90. Private and public consumption in real terms will therefore expand by just under 5% per annum, after taking into account the impact of slight increases in the domestic price level. Such growth, higher than in most

countries, will imply steady and progressive enhancement of welfare and general well-being. To ensure that the growing volume of private and public consumption benefits all sections of the population, Government will continue to give attention to evening out opportunities for economic advancement throughout the country.

IV.—IMPORT TARGETS

91. As investment is likely to grow more rapidly than consumption, imports of goods and services are expected to increase faster than in the previous three years—2.7% annually both in real terms and at current prices. The value of imports of consumption goods will increase by less than 1% annually. Intermediate and consumer goods imports as a proportion of private consumption are expected to fall from 35.6% in 1968 to 32.9% in 1970, indicating that a continuing but slower pace of import substitution will occur as many of the most promising prospects in manufacturing are gradually being exploited. However, imports of capital goods as a proportion of total fixed investment are projected to remain at about 51% during the same period. As regards imports for re-export, a decline of about $100 million is likely in the case of rubber and tin from neighbouring countries.

V.—OUTPUT AND INCOME GROWTH TARGETS

92. In the light of the above developments in national expenditure, exports and imports, the annual increase in the volume of national output is expected to average 5.5% in 1969 and 1970, which at current prices corresponds to an average rate of 6.4%. The latter growth rate will be measurably higher than the rate of 5% during 1965-68. The rate of output growth in volume terms projected for the next two years will be lower than that in the previous three years. The broad outlines of the projections described above are presented in Table 2-2.

TABLE 2-2

MALAYSIA: NATIONAL OUTPUT AND EXPENDITURE, 1968-70

($ millions, current prices)

	1968	*1969*	*1970*	*Annual Growth Rate (%)*
Consumption—				
Private	6,300	6,615	6,946	5.0
Public	1,953	2,090	2,226	6.8
Investment—				
Private	1,246	1,358	1,494	9.5
Public	580	661	754	14.0
Exports of Goods and Services	4,442	4,513	4,676	2.6
Less Imports of Goods and Services ...	4,358	4,417	4,594	2.7
Gross National Product ...	10,163	10,820	11,502	6.4

93. Taking into account the changes in the value of exports on international markets in terms of the imports which may be bought in exchange, it is estimated, as shown in Table 2-3, that real gross national income or the purchasing power of the nation should increase by 5.6% annually between 1968 and 1970. With the rate of natural increase of population likely to be 3% per annum, real gross national income *per capita* will rise from $964 in 1968 to $1,014 in 1970, both in terms of 1965 purchasing power, thus exceeding the Plan target.

TABLE 2-3

MALAYSIA: AGGREGATE OUTPUT AND INCOME, 1968-70

($ millions)

	1968	1969	1970	Annual Growth Rate (%)
Real Output (1965 prices)—				
Production for domestic use	5,340	5,831	6,248	8.2
Exports of goods and services	5,318	5,326	5,619	2.8
Real Gross National Product	10,658	11,157	11,867	5.5
At current prices—				
Production for domestic use	5,721	6,307	6,826	9.2
Exports of goods and services	4,442	4,513	4,676	2.6
Gross National Product	10,163	10,820	11,502	6.4
Purchasing Power (1965 prices)—				
Production for domestic use	5,340	5,831	6,248	8.2
Exports of goods and services	4,442	4,513	4,676	2.6
Gain from fall in import prices	119	120	125	—
Real Gross National Income	9,901	10,464	11,049	5.6

VI.—FINANCING OF NATIONAL EXPENDITURE

94. After financing consumption expenditures and net transfers abroad, the projected rate of growth of output will yield increases in national savings of about 11% annually in 1969 and 1970. This increase is estimated to come primarily from output growth as total consumption is expected to increase by 5.4% and GNP by over 6%. National savings, as a proportion of GNP, will rise from 17.4% in 1968 to 19% in 1970. As gross investment will expand from 18% to 19.5%, only a small amount of resources will be drawn from abroad to cover the balance. The part of the GNP so financed will remain under 0.6% in 1969 and 1970. While no country in the process of accelerated economic development can expect to have a very large part of domestic investment financed by net resource

inflows from abroad, there is still room for Malaysia to exploit more fully its potential for attracting foreign capital. Domestic savings, however, will continue to play the main role, given sufficiently attractive investment opportunities. Details of the manner in which national expenditure in 1969-70 is to be financed are given in Table 2-4.

TABLE 2-4

MALAYSIA: NATIONAL EXPENDITURE AND ITS FINANCING, 1968-70

($ millions)

	1968	*1969*	*1970*
GNP	10,163	10,820	11,502
Less Consumption Expenditure	8,253	8,705	9,172
Less Net Transfers Abroad	146	161	146
Gross National Savings	1,764	1,954	2,184
Less Gross Investment	1,826	2,019	2,248
Foreign Balance on Goods and Services ...	−62	−65	−64
Gross National Savings/GNP Ratio	17.4	18.1	19.0
Gross Investment/GNP Ratio	18.0	18.7	19.5
Foreign Balance/GNP Ratio	0.6	0.6	0.6

95. It will be observed from Table 2-4 that the projections for total consumption and investment are consistent with the real resources available to Malaysia. It is expected, however, that private savings will exceed private investment while the reverse position will prevail in the public sector. The implementation of Government's programmes during the next two years will therefore imply continuing deficits in the overall financial accounts of the public sector, whose financing will require, as in the recent past, mobilisation of domestic private savings as well as foreign capital.

96. In the financial budget presented to Parliament in January, 1969 Government's proposals for meeting the problem of financial management this year were detailed. Similarly, Government's plans for 1970 will be submitted when the budget for that year is presented. Currently, recurrent and development expenditures by the public sector (the counterparts of which are transfer payments as well as public consumption and public investment, the rationale for whose growth has already been elucidated) are projected to increase by about 8.8% per annum, some 2.4 percentage points higher than the GNP growth rate.

97. To finance the implied deficits in the overall accounts, the amounts that will have to be raised in 1969 and 1970 by domestic borrowing will continue to be relatively large. Such mobilisation of domestic capital, however, will still be consistent with the magnitude of capital resources available in the economy. The private sector is expected to continue to be highly liquid, even after allowing for the growth of private investment indicated earlier. The object of Government will be no more than to tap some part of the savings in the economy by offering securities in such a form that savers will wish to purchase them with their savings and hold them as financial assets.

98. Continued efforts will also be made to attract foreign capital. Substantially larger proceeds are expected to accrue from: foreign market borrowing; foreign loans and grants for projects for which capital has already been committed; and foreign loans and grants for projects which are already in the pipeline with donor countries and international aid agencies and for which disbursements are expected in the course of the two-year period.

99. In managing its fiscal and monetary affairs, Government will continue to make every endeavour to ensure that its annual targets for current revenue do not impede the inducement to invest by the private sector. Work will be directed towards aligning the tax system in such a way that Government revenue grows in consonance with the expansion of GNP in the long-term; that those parts of the economy which benefit from the growth process contribute their due share towards tax revenue; and that the incidence of taxation falls largely on private consumption rather than investment. The International Monetary Fund will make available to Government expert services to assist in the studies and planning involved.

VII.—BALANCE OF PAYMENTS PROSPECTS

100. One of the factors accounting for the relatively small net amount of resources that Malaysia draws from abroad is the fact that it faces a much more favourable foreign trade picture than do most developing countries. In fact, with merchandise exports estimated to grow by about 4% per annum and imports by 2.3%, the merchandise surplus will increase by 11.7% annually in 1969 and 1970. Indeed, Malaysia is one of the few non-oil producing developing countries where the balance of payments could be a source of strength rather than of weakness. An essential ingredient of development policy in Malaysia will be to capitalise on this strength through continuing efforts to draw in capital resources from abroad for the purpose of accelerating the growth of output, income and employment, until such time as the economy is in a position to sustain a much higher level of activity on its own accord.

101. According to the projections for 1969-70, net payments abroad for services, including profit remittances from investment undertaken by foreigners, and net transfer payments overseas will exceed the merchandise surplus as shown in Table 2-5. Payments for services supplied by foreigners and income earned by foreigners from investment in the country will grow in general consonance with national output growth. However, Malaysia's earnings from services supplied to foreigners will decrease substantially because of the withdrawal of Britain's military forces from the country. Net service payments are therefore projected to grow by 13.5% per annum. Net transfer payments are also expected to remain at a fairly high level; although private foreign remittances will decrease, official grants from foreign governments are also likely to decrease from the present level, which is already low as compared with grants received by other countries at Malaysia's stage of development. On the whole, therefore, the balance on goods, services and transfers will continue to be in deficit for the period 1969-70.

TABLE 2-5

MALAYSIA: BALANCE OF PAYMENTS, 1968-70

($ millions, current prices)

	1968	*1969*	*1970*
Current Account—			
Exports f.o.b.	4,005	4,151	4,325
Imports f.o.b.	3,352	3,388	3,510
Merchandise Balance	653	763	815
Services (net)	−569	−667	−733
Transfers (net)	−146	−161	−146
Balance on Goods, Services and Transfers ...	−62	−65	−64
Capital Account—			
Long-term capital (net)—			
Private	150	183	202
Public	89	280	260
Change in net Foreign Exchange Reserves (minus=increase)	30	−148	−148
Errors and omissions including Private short-term capital movements	−207	−250	−250

102. With the progress which has been made in arranging for foreign loans for the public sector and given the measures being taken to attract foreign entrepreneurial and financial participation in investment in the country, an increasing net inflow of long-term capital is projected. If this materialises, the inflow of long-term capital will be more than sufficient to finance the current account deficit. In fact, even after adjusting for the

traditionally large negative "errors and omissions" item in the balance of payments, some addition is likely to be made to total external reserves in 1969-70.

VIII.—MID-TERM REVIEW ESTIMATES AND PLAN TARGETS

103. If the 1970 projections of the main economic aggregates are realised (and this is considered a reasonable expectation, barring unforeseen developments), then the volume of national production will expand by 6.2% annually over the 1966-70 period compared to 4.9% projected in the Plan. The cumulative total of the volume of output will exceed the Plan target by 5.5%.

104. The better than projected production performance, which reflects the unexpectedly rapid growth of export volume well in excess of the shortfall in other production lines, will more than offset adverse export price developments during the period. GNP at current prices will expand by 5.6% annually as against a growth of 4.8% which was foreseen in the Plan. Exports will be greater than the cumulative target by 16.9% in volume terms and 7.2% in value terms. Implicit in this particular achievement will be the fact that the growth of a number of export products will together have more than offset a 27% drop in the price of rubber—the country's most important export earner. Such growth in exports will have successfully weathered the storm of the sharp decline in the rubber price in 1967.

105. As has already been explained, the impact of the steep drop in the rubber price in 1967 can be seen in the absolute decline of export proceeds that year, the sluggishness of domestic aggregate demand and of production for domestic use in the last half of 1967 and the first half of 1968. But for the exports of other commodities, notably timber, which are forging ahead, and the more gradual decline in the rubber price after 1967, the opportunity would not have existed of exceeding the Plan cumulative GNP target, nor would it have been possible for the domestic economy to resuscitate itself as quickly as it appears to be doing currently. Even so, the cumulative total of production for domestic use will fall short of the Plan target by over 3%. Table 2-6 sets out the differences in national expenditure and output between the estimates of the Mid-Term Review and the targets of the Plan.

106. The increase in cumulative national output over the Plan target, accompanied by a lower level of consumption expenditures, will enlarge national savings by over 16%. This increase will be achieved despite a six-fold rise in net transfer payments abroad, resulting almost entirely from a drastic shortfall in foreign grant aid receipts. In fact, only about half of the Plan's foreign grant expectations are now likely to be

realised. This growth in national savings, combined with a 1.3% shortfall in gross investment, will make it possible to get by with only one-eighth the amount of real resources from abroad expected in the Plan.

TABLE 2-6

MALAYSIA: CUMULATIVE NATIONAL OUTPUT AND EXPENDITURE, 1966-70

($ millions, current and constant 1965 prices)

	Estimates at Current Prices		
	Mid-Term Review Estimates	*Plan Targets*	*Difference (%)*
Consumption	41,475	41,676	−0.5
Private	(31,655)	(31,843)	(−0.6)
Public	(9,820)	(9,833)	(−0.1)
Investment	9,603	9,730	−1.3
Private	(6,449)	(6,160)	(4.7)
Public	(3,154)	(3,570)	(−11.7)
Gross National Expenditure	51,078	51,406	−0.6
Less Imports of Goods and Services	21,604	22,160	−2.5
Plus Exports of Goods and Services	22,059	20,581	7.2
Equals Gross National Product	51,533	49,827	3.4
Production for Domestic Use	29,474	29,246	0.8

	Estimates at Constant 1965 Prices		
	Mid-Term Review Estimates	*Plan Targets*	*Difference (%)*
Consumption	40,339	40,485	−0.4
Private	(30,789)	(30,932)	(−0.5)
Public	(9,550)	(9,553)	(−)
Investment	9,339	9,455	−1.2
Private	(6,272)	(5,984)	(4.8)
Public	(3,067)	(3,471)	(−11.6)
Gross National Expenditure	49,678	49,940	−0.5
Less Imports of Goods and Services	22,195	21,534	3.1
Plus Exports of Goods and Services	25,304	21,652	16.9
Equals Gross National Product	52,787	50,058	5.5
Production for Domestic Use	27,483	28,406	−3.2

107. While the developments explained above indicate strongly that current national expenditure projections are consistent with the real resource availabilities of the Malaysian economy, the important lesson is that if a rapid rate of investment is to be effected to generate a high and sustained level of economic and social development, then the resources for such an effort can only come from output growth in the long-term. So important is a rapid rate of growth for enlarging national savings that if in the immediate future constraints exist in mobilising an adequate amount of domestic resources for investments in the public and private sectors, then much greater recourse must of necessity be found in capital resources from abroad. That Malaysia is in a position to attract such resources is undoubted, for the level of the country's external reserves and the stability of its currency, balance of payments and monetary and financial situation are indeed impressive elements of strength. Table 2-7 illustrates the manner in which national expenditures are likely to be financed as compared with the Plan's expectations.

TABLE 2-7

MALAYSIA: DERIVED CUMULATIVE ESTIMATES OF INVESTMENT FINANCE, 1966-70

($ millions, current prices)

	Mid-Term Review Estimates	*Plan Targets*	*Difference (%)*
Gross National Product	51,533	49,827	3.4
Less Consumption Expenditure ...	41,475	41,676	−0.5
Less Net Transfers Abroad ...	708	107	661.7
Gross National Savings	9,350	8,044	16.2
Less Gross Investment	9,603	9,730	−1.3
Foreign Balance on Goods, Services and Transfers	−253	−1,686	−85.0
Gross National Savings/GNP (%) ...	18.1	16.1	—
Gross Investment/GNP (%) ...	18.6	19.5	—
Foreign Balance/GNP (%)	0.5	3.4	—

108. The significantly lower foreign deficit on goods, services and transfers is likely to be realised even after account is taken of higher transfer payments abroad and despite larger outgoings in respect of net payments for services as a result of the loss of foreign income following upon the withdrawal of British troops from the country. The manner in which this reduction of foreign income is beginning to be contained is testimony again to the basic resilience of the Malaysian economy.

109. With the much smaller deficit on the external current account, the balance of payments difficulties that would have been caused by the marked shortfall in private and public long-term capital inflows would also have been more than obviated. Whereas the Plan projected use of the foreign exchange reserves of the country amounting to $686 million (a drawdown that would have been entirely consistent with the maintenance of a sound balance of payments position, given Malaysia's high level of reserves), it is now expected that no reserve use will be necessary for the period as a whole. Table 2-8 summarises the position on the balance of payments.

TABLE 2-8

MALAYSIA: CUMULATIVE BALANCE OF PAYMENTS ESTIMATES, 1966-70

($ millions)

Current Account	*Mid-Term Review Estimates*	*Plan Targets*	*Difference (%)*
Merchandise balance	+3,315	+705	370.2
Services balance	−2,860	−2,284	25.2
Transfers balance	−708	−107	661.7
Balance on Goods, Services and Transfers	−253	−1,686	−85.0
Capital Account			
Long-term capital (net)	1,592	2,000	−20.4
Private	(830)	(1,000)	(−17.0)
Public	(762)	(1,000)	(−23.8)
Change in net foreign exchange reserves (minus=increase)	−42	+686	—
Errors and omissions including private short-term capital movements	−1,297	−1,000	29.7

110. With respect to the financial position of the public sector, it is estimated that, in the event the projections for 1969 and 1970 as shown in Table 2-9 are realised, the overall deficit between the current receipts and recurrent and development expenditure of the public sector will be about 8% lower than that originally expected. Increases in public sector expenditure, as a result of larger Government recurrent expenditure, will be more than compensated by higher cumulative public sector receipts, accounted for primarily by Government current revenue, even assuming the continuation of 1968 tax rates. Surpluses of public corporations will yield less

than expected. As a proportion of Government recurrent and development expenditure, the overall deficit will have fallen from 27.7% as projected in the Plan to 24.3%. This achievement in the public finance field as well as that in the balance of payments is commendable; however, by itself it is of no avail unless it supports a rapid and sustained rate of growth. The country has a long way to go in the task of accelerated economic and social development.

TABLE 2-9

MALAYSIA: CUMULATIVE ESTIMATES OF PUBLIC SECTOR FINANCE, 1966-70

($ millions)

	Mid-Term Review Estimates	*Plan Targets*	*Difference (%)*
Government current revenue	10,989	9,800	12.1
Government recurrent expenditure	10,434	9,600	8.7
Government current surplus	+555	+200	177.5
Surplus of public corporations	+296	+425	−30.4
Public sector current surplus	+851	+625	36.2
Development expenditure	4,477	4,550	−1.6
Overall deficit	−3,626	−3,925	−7.6

IX.—POLICY ISSUES

111. As has already been indicated, the revised targets of the First Malaysia Plan arising from the Mid-Term Review are reasonable expectations. Greater assurance of the achievement of the Plan targets in the immediate term and more particularly continued development of the economy at a rapid pace in the seventies, however, demand the implementation of policies which promote and facilitate the fuller and more efficient use of the country's natural, capital and human resources.

112. This section presents the broad lines along which Government will continue to meet these requirements. In fact, the purpose of the aggregative economic exercise outlined in the preceding sections of this Chapter has been to focus attention on those economic policies which would be most effective in the context of Malaysia's development effort.

113. The first area that will be given intensified attention is those policies which bear upon the development of the country's natural resources. Malaysia is indeed fortunate in its endowment of natural resources, particularly its vast tracts of cultivable land. The composite of these resources permits the possibility of attaining within one generation a *per capita* income which would reach the level now enjoyed by countries commonly regarded as "developed"; incorporation of the rural poor into the modern sector, thus enabling them to share fully and directly in the process and fruits of economic growth; and full employment of the nation's human resources, including the underemployed labour known to exist in agriculture.

114. Such objectives may appear ambitious but they are attainable. A primary requirement will be a rapid rate of new land development. In the last 60 years, some nine million acres were alienated for agriculture in West Malaysia. However, evidence from aerial surveys indicates that only about seven million acres, representing less than half of the agriculturally suitable area, are actually being cultivated. Considerable inroads will be made into the total availability of some nine million acres of undeveloped potential crop land during the next two decades. The development of additional acreages in East Malaysia, where the reserve of potential crop land is far more substantial, will provide the base for additional large-scale expansion.

115. An endeavour of this magnitude, however, will necessitate involvement of both the public and private sectors. In the period before the Second World War, land development was spearheaded primarily by the private sector. Since Merdeka in 1957, it was the public sector. From the present to the future, acceleration in land development of the order required demands joint participation.

116. To this end, the Federal Government will work closely with the State Governments to ensure sizeable and speedy alienation of land to private enterprise, both local and foreign, on attractive terms, for estate and smallholder development, in addition to development under Government auspices for the landless rural population. A concomitant of this more liberal land alienation policy must be the cultivation of good land already alienated and not being cropped, which comprises a considerable segment of the potential cropland reserve.

117. In support of this effort, a comprehensive land capability classification programme has been in progress in West Malaysia for the last four years and will be completed in 1969. This programme involves an analysis of relevant data concerning the mineral, soil, forest and water use potentials and of the patterns of present land use for the whole of West Malaysia. It indicates the capability of the land for future mining, agricultural or forest purposes. Such analyses have been completed for

the States of Pahang, Johore, Malacca and Negri Sembilan while a similar programme has commenced in Sabah and will be initiated in Sarawak in due course. The results of this work, which enables high priority areas to be selected for particular uses, will go a long way towards ensuring orderly development along lines which facilitate the maximisation of the benefits that can accrue from the country's land resources.

118. Several high priority development areas identified through this programme will be studied in depth during the remaining years of the Plan, thus paving the way for an accelerated rate of development in accordance with a carefully prepared master plan during the Second Malaysia Plan period.

119. Parallel to the accelerated efforts given to the development of new agricultural land must be the continued development of land by the mining industry to supplement existing mining areas, many of which will shortly reach the end of their economic life. To this end, Government will encourage the introduction of modern exploration techniques which are capable of providing more precise indications of a wide range of workable minerals, both off-shore and on-shore. Such methods can most efficiently be conducted over larger prospecting areas than has been traditional in the past.

120. With Malaysia having one of the world's few large remaining stands of valuable hardwood timber, intensified attention will also be given to the development of the country's forest resources. Following upon the effort at land development in the next several years, more than half of the annual log timber output will emanate from existing forest land which will be converted to agricultural uses. Once such land is deployed to agriculture, however, the country will become largely dependent on the annual coupe of forests permanently allocated to timber production. Thus to provide for efficient exploitation of forest land to be cleared for agriculture and to ensure maximum yield from the country's forest land which is unsuited to other uses, a nation-wide forest working plan is being prepared with the assistance of the UNDP. This will provide for coordination in the exploitation of timber from Forest Reserves and State lands in relation to development of agricultural land on the one hand and forest industries development on the other. The working plan will provide for the regulation of yields of timber from the permanent production forests so that these forests can supply timber in perpetuity and will also prescribe treatment to be carried out in these forests to increase their productivity. In the field of forest industries development, the UNDP project will assist in research and extension to promote the utilisation of presently unmarketable species and improvement in logging, sawmilling and other wood-processing techniques.

121. To support the quickening pace of land development, institutional innovations will be effected in the field of agricultural, livestock and fisheries research. A Malaysian Agricultural Research and Development Institute will be established as a statutory body in 1969. Designed to provide a vigorous new thrust to applied agricultural research, the work of the Institute can be expected to make a fundamental contribution towards the introduction of a number of import-replacing commodities which seem promising but on which knowledge is now lacking, as well as on the production of oil palm and other export crops.

122. Agricultural and forestry development present the nation with the main prospect for generating the income and employment required to lift the economy to a position of self-sustained growth. They also provide a base for future industrial development.

123. There are a number of possibilities for building industry on Malaysia's agricultural base. A major one is the wood products industry. Log production is expected to grow substantially over the next 15 years. This will open up tremendous opportunities for the production at competitive prices of a wide range of products—plywood and veneer, sawn timber, particle and fibre board as well as furniture, more sophisticated types of panelling, laminated lumber, prefabricated structures and building components.

124. A second major possibility is related to the production of palm oil. Output of this product is expected to rise by 21% per annum up to 1985. Processing of the fresh fruit bunches and manufacture of the processing facilities themselves are therefore likely to grow rapidly. There will also be enhanced prospects for the production of soap, margarine, cooking oil, animal feed, condensed milk and many other products for which palm oil can be used as an ingredient.

125. A third field is rubber processing. With increased output of the new special type rubbers, opportunities will arise for the manufacture of facilities for the processing of these rubbers. The manufacture of a greatly expanded range of rubber products is another distinct possibility.

126. The establishment of FIDA and the implementation of the Investment Incentives Act, substantially liberalising and broadening the provisions of the Pioneer Industries Ordinance of 1958, are major institutional steps in Government's effort to encourage rapid growth of foreign and domestic investment in manufacturing industry. The impact of this Act as well as the protective tariff measures being introduced will be watched closely to ensure that they contribute effectively towards bettering the

investment climate in the country and that they foster and promote the growth of sound industrial ventures which look not only toward the home market but to an increasing extent to the markets of the world economy.

DEVELOPMENT OF EXPORTS

127. The growth potentials available to Malaysia are thus abundant. Their exploitation, however, will depend not only on policies and programmes which facilitate their use but also on strong and sustained demand for the commodities which are produced. A rapid rate of economic growth for the country as a whole, which creates a rapidly growing home market, will be a necessary basis and source of demand for products of Malaysian origin. Malaysia's exports will also benefit from a growing world market. However, to hold and increase its share, greater efforts to stimulate exports will be needed.

128. Dramatic as export expansion is likely to be over the Plan period, in comparison with original expectations, it will still grow at a pace which is slower than the rate of growth of GNP. Abundant empirical evidence and logic itself indicate that no developing country can long maintain a GNP growth rate well in excess of its export growth rate. This contention is especially relevant for Malaysia, which is so strongly dependent on being able to specialise. Thus it is imperative that impetus be supplied to the rate of growth of total exports. This calls for a variety of measures.

129. In the case of rubber, the Standard Malaysian Rubber Scheme was introduced in 1965. Grading by technical specification represents a revolutionary departure from conventional methods of marketing natural rubber. It is designed to eliminate malpractices, to define good Malaysian rubber and to present a uniform and satisfactory rubber for all manufacturing purposes. Efforts at promotion, publicity, quality control and standardisation of contracts are also being undertaken in respect of rubber, timber and pineapple, through the operations of the Malayan Rubber Fund Board, the Malayan Rubber Export Registration Board, the Malayan Rubber Exchange, the Malaysian Timber Export Industry Board and the Malayan Pineapple Industry Board. In the case of manufactured exports, a conscientious endeavour has been made to support further expansion through the provision of special fiscal incentives which are embodied in the Investment Incentives Act of 1968. And to underpin the promotion of all such exports, the Malaysian Trade Commissioners' Service has been expanded while an increasing number of trade agreements have been concluded, most recently with Eastern European countries.

130. But much more remains to be done. Research on primary commodities will be intensified both in respect of their production as well as utilisation in the effort to develop new markets at competitive prices. The same will be undertaken for manufactured goods through the establishment of the National Scientific and Industrial Research Institute and the expansion of the Forest Research Institute. An export credit and insurance schem will also be established, while increasing emphasis will be given to those industrial and investment incentives which particularly favour export-oriented activities.

131. Tourism is also a source of potentially very substantial gains in foreign exchange earnings, as well as an activity which can offer greatly expanded domestic employment opportunities. The current hotel building boom in Kuala Lumpur is indicative of the private sector's assessment of the probable growth of tourism in this area over the next few years. Recognising the importance of tourism in the economic development of Malaysia, Government is prepared to provide active support to this industry under the new Investment Incentives Act. Eligibility for pioneer status and other incentives has been extended to hotels and related tourist facilities, thus helping to reinforce the promotional efforts of the Department of Tourism.

INVESTMENT FINANCING

132. Finally, reference has to be made to the need for mobilisation of capital to support an increasing rate of investment so that there will be fuller utilisation of the country's physical and human resources. This calls for policies for transferring savings from the private to the public sector; it also requires policies and institutions which facilitate transfers of savings within the private sector from those who save more than they invest to those who need additional funds to finance their investments. Such transfers within the private sector are effected through the capital market.

133. The problem which Malaysia faces is not primarily a lack of capital or of savings, but the need to develop machinery which will improve the flow of capital into productive investment. At present private investment is heavily dependent on retained earnings as a main source of finance. It is therefore imperative that, for private investment to continue to grow, ways must be found to supplement retained earnings with loan capital. More and better financial intermediaries are needed between savers and investors.

134. For this purpose, increased attention will be given to the development of the capital market both for bonds and shares so as to ensure that it

conduces to effective saving and investment practices in Malaysia. Government and Bank Negara Malaysia will seek means to make savings in the form of bank deposits easier to effect throughout the country and help strengthen savings habits of Malaysians in the interest of the savers themselves and of the country as a whole.

135. Bank Negara Malaysia has the means to affect the structure of lending of private banks, both through the stipulation of reserve and liquidity ratio requirements and domestic asset regulations, and by such recommendations, advice and suasion that it brings to bear on the banks. These are powerful tools to ensure that savings are not only retained, but put to productive use in the country. They will also ensure that priority needs of finance for investments in the private sector are met and that a gradual expansion of commercial bank loans for long-term investment in new productive capacity is effected, as against traditional short-term lending for trade and commerce.

136. In areas where traditional financial institutions, in particular the commercial banks, cannot be induced or expected to meet needs for loan capital for sound investments of high national priority, Government will promote the establishment of special financial institutions as it has done in the case of MIDF and as it is considering to do in the case of agricultural credit and housing finance.

137. In the final analysis, however, Government is cognisant that the most critical and decisive influence it can bring to bear on private investment can only come from an accelerated development drive which places a premium on those policies and investment programmes which create the basis for rapidly growing private sector development in agriculture, forestry and local raw-material based manufacturing industry. It is therefore to this task that the succeeding Chapters of this document will be devoted.

CHAPTER III

Agriculture, Fisheries and Forestry

138. One of the most basic national objectives in the Plan is increased levels of economic well-being for all Malaysians. These will be reflected partly in higher *per capita* incomes and levels of consumption. They require increased income-earning capacity and greater output for those presently employed. They also demand new employment opportunities for the unemployed and for those who join the labour force every year.

139. Each of the above national objectives in the Plan is closely linked to, and in fact depends upon, achievement of objectives for the agricultural sector. Foremost among these are: increased acreage under cultivation; greater output per man and per acre of cultivated land; a much-strengthened agricultural research programme; increased numbers and enhanced competence of agricultural educators, research scientists and extension workers; and correction of institutional shortcomings in such areas as land tenure, credit, processing and marketing. The means to these and other objectives in agriculture are the various programmes and policies described in the Plan. Their implementation was estimated to require $1,086.6 million of Government development expenditure or about one-quarter of total public development expenditure during the 1966-70 Plan period. Government expenditure in the important areas of new land development and land improvement through drainage and irrigation constituted about two-thirds of public development expenditure for agriculture. It was also envisaged in the Plan that the private sector would play a particularly important role in the total land development effort.

140. Today, more than half-way through the Plan period, overall objectives for agriculture remain basically unchanged. Alterations in policies or programmes now deemed necessary for the remaining years of the Plan period are due in part to better understanding of problems in the agricultural sector. These changes also reflect Government's increased emphasis upon

measures to improve productive efficiency and thereby enhance agriculture's ability to withstand adverse price developments such as those which occurred for rubber and palm oil during 1966-68.

141. Among major agricultural commodities, prices for timber and timber products were unexpectedly strong during the first half of the Plan period. The result has been a welcome boom in logging and timber exports. On the other hand, prices for rubber and palm oil have been weaker than anticipated. And, because of rubber's dominance in Malaysia, its lower price has restricted the growth of income and employment opportunities throughout the economy. These developments have again demonstrated the vulnerability of the economy as a result of heavy dependence upon a few export commodities. Accordingly, the need to move forward in a vigorous national development effort aimed at economic diversification, reduced production costs for major crops and fuller utilisation of the country's human, land and timber resources has been re-emphasised.

I.—THE PATTERN OF DEVELOPMENT, 1966-68

AGRICULTURAL PRODUCTION

142. The Plan established an overall growth target for agriculture, fishing and forestry of 5.5% per year in 1966-70. Agricultural production for export was to grow at about 5.3% annually while production for domestic use was to expand at 6.6%. Preliminary data suggest that these targets were in fact exceeded over the first two years of the Plan period. Aggregate production grew at an annual average rate of 6.4% in 1966 and 1967 while output for export and domestic use expanded at 6.2% and 7% per year respectively.

143. However, these overall magnitudes hide wide variations in growth rates for particular commodities. The very encouraging overall performance was due almost entirely to striking production gains for a relatively few products, notably palm oil and kernels, copra, pepper, fish and timber—each with an annual growth rate in the two years of more than 13%.

144. In contrast, much less satisfactory growth rates were achieved for padi, pineapples, fresh fruit, fresh vegetables, livestock and poultry products. Rubber output grew at about 4% annually in 1966 and 1967 but is projected to increase by 9.5% in 1968. Similarly, production of padi in 1968 is expected to be up substantially from the flood-damaged 1967 crop. Absolute declines (1967 over 1965) were registered for padi, tea, fresh vegetables and tobacco. Of the fifteen commodity groups here considered, growth rates of six exceeded Plan targets while nine lagged behind. Most of those with slow

growth rates were in the locally-consumed foodstuff group. Although weakness in some of the data make conclusive statements impossible, it seems likely that locally-produced *per capita* supplies of several foodstuffs were moderately lower in 1967 than in 1965.

145. Padi production should expand rapidly during the remainder of the Plan period and in the early seventies, as recently completed drainage and irrigation schemes reach their full potential and as the large Muda and Kemubu projects are brought into operation. Much of this increased production will come from double-cropped acreage, which has grown from about 90,000 acres in West Malaysia in 1965 to an estimated 222,000 in 1968.

146. By late 1968 construction of the civil works in the Muda River irrigation project—financed in part by the World Bank—was on schedule. Work on the Muda River dam was about two-thirds finished while construction of the Pedu dam and the connecting tunnel was more than 90% completed. Both dams are expected to be fully operational by June, 1969 and sufficient water will be impounded by February, 1970 to permit double-cropping of some 130,000 acres which now produce only one crop of padi each year. Construction of the Northern Canal—the main supply line to Perlis and North Kedah—is virtually completed. Work on the Central Canal and the reticulation system is sufficiently advanced to offer the firm prospect that water can be distributed to the entire project area by 1971.

147. Loan negotiations with the World Bank have been concluded for the Kemubu project and construction work has begun. In both project areas various Government departments and agencies have begun massive programmes of research and farmer education to ensure that forthcoming supplies of water will be expeditiously and profitably utilised in crop production. On the basis of production expected from these and other projects, West Malaysia can look forward with reasonable confidence to self-sufficiency in rice by the early seventies.

TABLE 3-1

MALAYSIA: GROWTH RATES OF PRODUCTION IN AGRICULTURE, FORESTRY AND FISHING, 1960-67

(Average annual growth rate)

Commodity	*1960-65* %	*1965-67* %	*Plan target* %
Rubber	3.2	4.1	6.6
Palm Oil and Kernels	8.3	22.3	13.9
Copra	−7.0	13.7	0.9
Padi	2.3	−0.9	7.6

Commodity	1960-65 %	1965-67 %	Plan target %
Pineapples[1] (fresh fruit)	8.7	4.0	10.0
Tea[1]	3.2	−3.5	2.9
Sago Flour[3]	19.2	5.0	6.8
Pepper[2]	18.8	19.9	4.7
Hemp[4]	3.0	6.0	3.0
Fresh Fruit[1]	3.7	2.9	5.4
Fresh Vegetables[1]	3.4	−4.6	4.3
Tobacco[1]	4.1	−4.3	5.3
Livestock and Poultry[5]	9.0	3.3	5.5
Fish[6]	7.6	22.3	6.0
Timber (round)	10.7	17.1	1.6
Aggregate Production	4.4	6.4	5.5
Export Production	4.6	6.2	5.3
Domestic Production	4.0	7.0	6.6

148. High growth rates in 1968-70 are also expected for several other commodities. Rubber output may expand by at least 6% annually, production of palm oil and kernels by more than 20% and round timber by nearly 10% per year during this period.

JAYADIRI

149. Government recognises the vital importance of human resources and motivation in the process of economic growth. The development of the human resource is a prime objective of the Jayadiri concept. Jayadiri, a means to achieve greater agricultural productivity, concentrates development efforts in areas where physical infrastructure is already in place and conditions are appropriate for rapid and effective absorption of assistance. In addition, Jayadiri aims at accelerated development in less favoured areas through land improvement and the provision of infrastructure and other social amenities. This coordinated approach is increasingly necessary as development becomes more complex—as agricultural technology becomes more sophisticated, purchased inputs more important and output more commercialised. The coordination of all Government programmes for the Muda and Kemubu projects provide important examples. In addition, 14 Jayadiri areas have been selected in West Malaysia for accelerated development under this programme.

(1) Production data from East Malaysia unavailable. "Fresh vegetables" includes sweet potatoes, groundnuts, maize, water melon, vegetables and other food crops.

(2) The category "pepper" includes arecanut, sireh, chillies, ginger, pepper, tumeric and cloves.

(3) Includes tapioca. Sago flour exports from Sarawak have fallen from 44,200 tons in 1965 to 36,000 in 1967. West Malaysian tapioca acreage in 1967 increased by about 30% over 1966.

(4) Based upon the volume of Manila hemp exports from West Malaysia and Sabah. Includes estimated production of nipah, gutta percha, gambier, kapok, derris and patchouli.

(5) Includes only the value of recorded slaughter of livestock in East and West Malaysia plus the value of eggs and table bird production in West Malaysia. Thus, unrecorded livestock slaughter throughout Malaysia and value of poultry products in East Malaysia are excluded. Farm prices of these products were relatively stable during this period.

(6) Based upon reported fish landings in Sabah and West Malaysia.

NEW LAND DEVELOPMENT

150. The largest Plan allocation of public expenditure in agriculture was for new land development. It was proposed that at least 65,000 families would be settled during 1966-70 on some 400-450,000 acres of newly-developed land in West Malaysia. Of this total about 141,000 acres were to be developed by the FLDA, 150,000 acres under various other Government schemes and the remainder by private sector interests. Firm data on progress attained in 1966-68 are available only from the FLDA. During this period FLDA planted about 90,400 acres, of which 64,300 were to oil palm and the remainder to rubber. During these three years some 6,600 families were settled on these lands, thus bringing the total number of families settled by FLDA to about 16,000. These achievements of more than 30,000 acres per year compare very favourably with Plan targets of about 28,200 acres annually. It is now expected that FLDA will exceed its target for the entire 1966-70 period by some 25,000 acres.

151. Available data suggest that the pace of new land development in 1966-68 through various State programmes has slowed from that in the 1962-65 period. Generally this reflects a consolidation of programmes operative in the earlier period which is necessary to ensure sound planning and eventual success of these efforts. Meanwhile the Federal Land Consolidation and Rehabilitation Authority (FELCRA) has begun rehabilitation of several less successful fringe-alienation schemes which total about 8,000 acres.

152. During 1966-68 land alienation to estate interests increased from the very low rates of earlier years. Most alienation of land to the private sector has taken place in the States of Pahang and Johore. Private interests are also involved in a promising joint-venture oil palm scheme with the Trengganu Government and similar schemes are being developed in other States.

THE RUBBER INDUSTRY

153. During the 1966-68 period the rubber industry in Malaysia continued to adapt to the competitive challenge of synthetics. Total rubber acreage grew slightly as the decline in estate acreage was more than offset by increases in smallholder rubber areas. In 1967 production from smallholdings amounted to 43% of total West Malaysian output, a higher proportion than in any year since 1956. Reflecting the impact of previous plantings with high-yielding materials, yields from estates and smallholdings are increasing although the differential remains large. Estate yields rose from 850 lbs. per acre in 1965 to 921 lbs. in 1967; average smallholder yields at the close of 1966 were only 571 lbs.

154. Aside from different management and cultural practices, a basic explanation for this sizeable yield differential is the lower proportion of smallholdings planted to high-yielding materials. In 1967 only 56% of the smallholder area was planted to such materials; the corresponding figure for estates was about 86%. Although the smallholder sector has made slower progress in this regard than estates since inception of the replanting programmes, the rate of smallholder replanting has been high in recent years. Smallholder acreage replanted or newplanted to rubber and other crops under this programme averaged about 92,000 acres per year in 1963-67. But as a result of shortage of funds and other difficulties it was only possible to replant about 45,000 acres in 1968. The rapid pace of smallholder replanting in recent years has resulted in a relatively high proportion of immature rubber acreage in that sector. This implies that average smallholder yields will increase steadily as these high-yielding plantings come into production.

155. Reduced production costs through higher yields have been accompanied by improvements in rubber processing and presentation. For smallholders the establishment of group processing centres is a valuable short-term programme to encourage the production of higher quality sheet rubber. In 1967 some 117 centres of this type were financed by MARA. Supervision of construction and initial development is the responsibility of the Rubber Research Institute's Smallholder Advisory Service. Presently an estimated 8% of total RSS and unsmoked sheet production from West Malaysian smallholdings is being handled by group processing centres.

156. The 1966-68 period has also seen promising developments in the central factory processing of smallholder latex. In 1967 the RRI converted existing factories at Meru in Selangor and Rantau in Negri Sembilan to Heveacrumb plants; presently these are producing, respectively, about 12,000 and 17,000 lbs. of block rubber daily. The experience gained in these schemes has demonstrated that central factories for smallholders can be commercially viable. Furthermore, they can contribute importantly to smallholder returns by reducing processing costs and producing rubbers of higher quality. For example, research by the RRI, based on the Meru and Rantau schemes, indicates that a smallholder who formerly produced unsmoked sheet but now sells latex to a central factory may realise an additional 4 to 5 cents per lb.—perhaps 10%—on his rubber production. Similar factories are to be established by the RRI in Grisek, Johore and Mentakab, Pahang. Each of these schemes will initially handle about 35,000 lbs. of rubber per day with later expansion to about 85,000 lbs.

157. Important developments are also occurring in rubber processing on estates. Output of Standard Malaysian Rubber (SMR) in West Malaysia

rose from about 430 tons in 1965 to 18,700 in 1967. Total output for 1968 is estimated at about 85,000 tons—or 8% of total rubber production in Malaysia.

AGRICULTURAL EDUCATION AND TRAINING

158. The Plan provides for an education programme in agriculture which would produce annually by the end of the 1966-70 period: 56-60 graduates from the Faculty of Agriculture, with additional specialists from the Faculties of Science, Engineering and Economics; about 160 diploma holders from the College of Agriculture, Serdang; and about 600 certificate holders from the Government Agricultural Schools. Targets for the first two categories have been met although the output from the Agricultural Schools is lagging seriously behind Plan objectives.

159. In the Faculty of Agriculture under-graduate enrolment increased from 126 in the 1964/65 academic year to 250 in 1968/69. The number of graduates from the Faculty has grown from 21 in 1964/65 to an expected 53 in 1968/69. In addition, a small but expanding graduate training programme has been initiated in the Faculty.

160. At the College of Agriculture total enrolment increased from 113 in 1965/66 to 548 in 1968/69. The number earning diplomas rose from 36 in 1965/66 to an estimated 155 in 1968/69*. The expansion of the College programme also has been accompanied by a revision and modernisation of the curriculum. Shortages of qualified staff have been serious bottlenecks to expansion but these are being overcome. A programme of staff development should further alleviate this problem in years ahead.

161. The training programmes of the Schools of Agriculture are designed to produce "operatives"—those who work most directly with farmers in various programmes of agricultural extension and development. In 1966 the training period in the Schools was extended from 17 months—as in previous years—to three years. Enrolment in the three-year programme rose from 36 in 1966 to about 260 in 1968. Approximately 36 will receive certificates in 1968 and 140 a year later. The shortfalls from Plan targets are due in large part to insufficient qualified personnel to staff existing schools and to delays in the international financing of new school construction.

162. Because "operatives" form an essential link in the transmission of new technology to farmers, the shortage of workers at this level could adversely affect programmes of agricultural diversification and development. To alleviate this problem the training programme in the Schools is being

* The number of qualified applicants is not limiting further expansion. The College had more than 1,500 of such applicants in 1968/69 for the 190 first-year places.

temporarily altered to two years of classroom instruction and one year of field work, thereby putting these workers on the job one year earlier than under the regular three-year course. To overcome the problem of insufficient staff, Government has approached the United Nations to assist in Malaysia's agricultural teacher training programme.

163. In addition to the training provided by the Faculty, College and Schools, ambitious programmes of staff development are underway in other agriculture-related agencies. In the Division of Agriculture, for example, some 80 students are under training abroad for the B.Sc. and Ph.D. degrees. Similarly, the Division of Veterinary Services currently has 68 students studying abroad for the B.Sc. degree in various fields while eight officers are pursuing post-graduate studies.

AGRICULTURAL DIVERSIFICATION

164. A traditional objective of agricultural diversification is to reduce income instability in the economy. While this objective remains valid in Malaysia, efforts to develop new lines of economic activity are required for other reasons as well. The longer-term expectation of rubber prices below levels which prevailed in 1960-65 suggests that alternative employment should be found for that land and capital which, with lower prices, would become unprofitable in rubber. In addition, constantly improving knowledge of Malaysia's land resources and the productive potential of the soil now permits a closer matching of that potential to a land use pattern which will maximise returns.

165. Through efforts of both the public and private sectors steady progress is being made toward greater diversification. Increased domestic production of rice, poultry products and pork has significantly reduced Malaysia's dependence upon imported supplies. In recent years West Malaysia has become nearly self-sufficient in poultry and eggs while *per capita* annual consumption of eggs has grown from 55 in 1960 to about 110 in 1967. And the big increase in fish landings in West Malaysia has been accompanied by a gain in net exports of fish (fresh, chilled and frozen) from about 13,000 tons in 1962 to nearly 22,000 in 1967. Production of milled rice in West Malaysia increased from a little more than 50% of requirements in the late fifties to about 74% in 1966, then fell slightly in 1967 as a consequence of flood damage to the local crop. East Malaysia continues to import about 45% of its requirements.

166. Progress in other areas of animal production, particularly the output of meat and dairy products, has been much less satisfactory. Furthermore, as buffalo numbers in West Malaysia fall with the expansion of padi double-cropping and mechanisation, meat supplies from this traditionally-important

source will also decline. On the other hand, prospects in the beef and dairy cattle sectors may be somewhat brighter, particularly if the on-going research in forage production, animal breeding and management is carried forward and strengthened. An FAO survey of the livestock industry to be completed in early 1969 is expected to provide a much clearer picture of this industry's potential in Malaysia.

167. Oil palm is also contributing significantly to diversification. In West Malaysia acreage increased from 235,000 in 1965 to about 400,000 in 1968. In Sabah about 45,000 acres are planted to oil palm and rapid expansion is planned. Land development projects based upon this crop are also underway in Sarawak.

168. While most of this increase has been in the estate sector, smallholders in West Malaysia are planting this crop at an increasing rate. As of May, 1968 smallholders (excluding FLDA settlers) had planted about 11,800 acres to oil palm, of which 9,900 were not yet in production. Technical assistance and processing facilities for smallholders must be assured if this acreage is to expand on a sound basis. The Ministry of Agriculture and Co-operatives is examining the problems faced by smallholders in this regard.

169. During 1967 and 1968 Government has been actively exploring various measures to further encourage diversification. Initial discussions are underway between the State Governments of Pahang and Johore and banana-producing interests to explore the possibilities of large-scale banana production in those States. To encourage tapioca root production among smallholders, MARA is to establish a modern tapioca starch factory in Pahang. Tapioca acreage, which expanded from about 36,000 acres in 1966 to some 45,000 in 1967, is expected to continue to grow rapidly as local and overseas markets are developed.

170. Maize acreage increased slowly in 1966 and 1967 although continued research and several promising new varieties should contribute to more rapid development in the future. Citrus acreage, though small in relative terms, rose by more than 9% annually since 1965. Private estates are acquiring additional valuable experience in the intercropping of mature coconuts with cocoa. Results to date are encouraging. In consequence cocoa acreage on estates in both East and West Malaysia has grown steadily and further expansion is planned. Initial research and trial plantings of soybeans, sorghum and sugar-cane indicate that these crops, too, may be attractive possibilities in Malaysia.

AGRICULTURAL RESEARCH

171. To meet the needs of a modern and dynamic agriculture, a new structure for agricultural research and extension in Malaysia will be presented to Parliament in early 1969. This autonomous statutory organisation, the

Malaysian Agricultural Research and Development Institute (MARDI), will be responsible for public sector research on all crops (except rubber), livestock and poultry production and fresh water fisheries. Research responsibilities in these fields will extend to East and West Malaysia. Social and economic research in such areas as extension methods, farm management and markets will also be the responsibility of MARDI. Where relevant research capabilities exist in private and other public organisations, MARDI will provide for and encourage contract research arrangements.

172. The Institute will play a key role in agricultural extension by including extension specialists among its professional staff. These individuals will serve as essential links necessary to transmit research results from MARDI's laboratories and experiment stations to the present network of extension workers at the State level.

173. Administrative control of MARDI will be vested in a Governing Board, comprising representatives from both the public and private sectors. Scientific and technical direction for MARDI will be provided by a Scientific Council. This Council, consisting of highly-qualified scientists and professional agriculturists from Government, agricultural education and industry, will establish research priorities and provide guidance on programme planning and execution. It will also serve as the point of contact between MARDI and other agencies or groups in the public and private sector.

174. In support of this organisational change, the Government is taking steps to increase the numbers and competence of agricultural research personnel in Malaysia. Based upon an FAO survey in 1967 of Malaysia's research programme, a request for UNDP technical assistance and training opportunities for local staff has been drawn up and will be submitted to the United Nations in early 1969. Other special assistance will be sought from those sources which appear best qualified to meet particular research needs.

PROCESSING AND FOOD TECHNOLOGY

175. Progress in handling, storing and processing of locally-produced foods is being assisted by the UNDP-financed National Food Technology Research and Development Centre. This project, which includes the provision of research facilities, technical personnel and study fellowships for local staff, was established in 1967. The main office and laboratory at the Federal Experiment Station, Serdang, were completed in late 1968. Construction of facilities at the field stations in Trengganu and Johore is underway while plans for those in Kedah and Tanjong Karang (Selangor) are nearly completed. The training programme for counterpart personnel is moving forward, with four local officers studying abroad by late 1968. Research and survey

activities have been initiated in several areas. Surveys of the pineapple and rice processing industries were carried out in 1968. Technical studies on rice grades and standards and the processing of tapioca and other local foodstuffs are underway.

MARKETING AND CREDIT

176. The marketing problems of Malaysian smallholders remain an important concern of Government. The approach to these problems could range from extensive government control, with active involvement in the buying and selling of farm products, restrictive licensing and other enforcement measures, to completely free markets with very disparate economic power between a few organised buyers and numerous unorganised sellers. Mid-way between these extremes is limited Government intervention on an *ad hoc* basis—depending upon, e.g., market problems and characteristics of particular commodities—in order to ensure the orderly and efficient working of market forces. In the latter case Government emphasis is upon the provision of physical facilities for orderly marketing, the free flow of information between buyers and sellers, workable and adequately supervised systems of grades and standards, and, where deemed necessary on the basis of thorough market studies, limited involvement by Government or its representatives in the buying and selling of farm commodities. This approach focuses upon the means to encourage more efficient performance by private traders, not their displacement. It is the cornerstone of Government's philosophy toward agricultural marketing problems.

177. During the period under review the Federal Agricultural Marketing Authority took energetic steps to solve some of the numerous problems in Malaysia's agricultural marketing system. The Authority placed primary emphasis upon the marketing of padi through the establishment of trading and licensing schemes in important padi production areas. Programmes of market information to consumers and producers have been initiated, as has the market research essential to a diagnosis of and prescription for marketing problems. On the basis of this research, marketing programmes for other agricultural products such as pepper, fish and coffee are being developed.

178. The role of agricultural credit continues to take on new significance in Malaysia as high yielding padi varieties are introduced and double-cropping expands. To realise the full yield potential of these varieties, fertilisers, herbicides, insecticides and machinery services are required. These non-farm inputs must be purchased—and their purchase frequently requires credit. Government will, in the course of 1969, establish a national agricultural credit institution to be the nucleus for the provision of credit to the

rural sector. It is intended that this institution will manage a public credit programme designed to ensure full utilisation of irrigation facilities and water to be made available in the Muda and Kemubu project areas.

II.—POLICIES AND PROGRAMMES, 1969-70

179. With some exceptions, progress achieved in agriculture, forestry and fishing during 1966-68 was satisfactory. Furthermore, development expenditure incurred during this period laid the groundwork for continued progress in the future. Yet serious problems remain in this sector; these must be the focus of policies and programmes in the years immediately ahead.

180. One manifestation of these problems is the "productivity gap" between agricultural and non-agricultural workers. Output per worker in agriculture continues to lag far behind productivity levels of workers in the non-agricultural sector—and low output implies low levels of *per capita* and family income. It is estimated that the value of output per man in West Malaysian agriculture (including forestry and fishing) in 1968 was less than half the value of output per worker in other parts of the economy.* Productivity differentials within agriculture also are likely to be wide. Presently, the lowest levels of output per worker might be expected among rubber smallholders and in some padi and coconut areas where holdings are small and yields low.

181. The reasons for the labour productivity and income problems of Malaysian agriculture are many. In addition to unfavourable rubber prices, these include: holdings too small to permit full utilisation of available labour; and low yields of rubber, rice and copra from existing acreage. The first results in unemployment or underemployment. The second implies low returns to the labour that is employed. Solutions to neither are easy but are well within Malaysia's capabilities. The first requires a vigorous programme of new land development, migration to these new areas and, where possible, consolidation of existing holdings. In padi areas it requires the provision of double-cropping facilities to permit more labour to be absorbed per unit of land. The second demands the continued development and rapid introduction of high-yielding seeds and other planting materials, together with the use of management practices appropriate to the realisation of the high-yield potential.

182. Preliminary analysis suggests that underemployment and unemployment are serious and growing problems in West Malaysian agriculture. The number of full-time jobs created each year in agriculture during the 1964-66

* Gross domestic product per worker in 1968 was estimated to be about $1,800 in agriculture and $4,200 for the non-farm worker.

period probably did not exceed 15,000. It is, however, tentatively estimated that about 20,000 new job opportunities must be generated annually in the Plan period to provide full-time employment to new entrants to the agricultural labour force. Moreover, this annual job-creation rate of 20,000 in agriculture, fishing and forestry will have to be increased by at least half if underemployment is to be eliminated by 1985. Realisation of these job-creation estimates would help to narrow significantly the productivity gap between the agricultural and non-agricultural sectors. They indicate the magnitude of the challenge to be met through agricultural development in the years ahead.

NEW LAND DEVELOPMENT

183. Labour and unutilised land constitute two of Malaysia's most abundant resources.* By combining them through private and public programmes of new land development and settlement they will contribute effectively to national development objectives. In the public sphere the FLDA has convincingly demonstrated its ability to develop virgin forest land into productive farms for smallholders. The FLDA programme will be expanded as rapidly as financial resources and staff numbers and capabilities permit. The annual planting programme of the Authority is to be increased from about 33,400 acres in 1968 to at least 40,000 annually during 1971-73 and subsequently even larger acreages will be developed each year.

184. If it is assumed that 30,000 new jobs are required each year in agriculture, fisheries and forestry—as preliminary study suggests—and that half of these are to be provided through programmes of new land development which allot eight acres per worker, then 120,000 acres must be brought into cultivation annually. It quickly becomes apparent that FLDA's programme must be supplemented by other larger public and private efforts. Low cost State schemes appear to be attractive means of bringing new land into production. Carefully planned and supervised youth schemes and fringe- and controlled-type alienation may be useful in some circumstances. And satisfactory means must be found to involve estate interests in a substantial way in large-scale land development.

185. The areas where the bulk of these developments will occur have been delineated. During the remaining two years of the Plan period three major feasibility studies will be carried out over large areas of undeveloped terrain in Pahang and Johore.

* In West Malaysia some 16 million acres of land are believed suitable for agriculture but only about seven million are presently cultivated. Thus, an additional nine million acres are potentially available for agricultural production.

186. The largest of these, the Pahang Tenggara Region, is in Southeast Pahang. It covers some 2.5 million acres, or approximately one-twelfth of the area of West Malaysia. From exploratory surveys the region is known to contain approximately 1.25 million acres of potential agricultural land, much of which is suited to oil palm, rubber and short term perennials. A large acreage of land suitable for annual cropping is believed to occur in the flatter areas, particularly on the eastern side of the region. A very considerable forest development opportunity also occurs here as, in addition to the 1.25 million acres for agriculture, several hundred thousand acres of productive forest are likely to remain as permanent forest estate.

187. The other two regions are in Johore. Each contains a little over 150,000 acres of potential agricultural land. Much of this carries productive forest at the present time. Some mining development possibilities also exist in these areas as in parts of the Pahang Tenggara Region. The provision of access should stimulate mining activity.

188. The aim of these studies is to determine more thoroughly the nature and extent of development opportunities. They will also include preparation of master plans which will permit rational development of the regions over a period of years. The two areas in Johore are comparable in size to the Jengka Triangle, where development is now being carried out in conformity with a 12-year master plan. Development of the new areas in Johore is likely to extend over a similar time period. The Pahang Tenggara Region, being much larger and representing the biggest single land settlement project in West Malaysia, may require 20-30 years to complete primary development. It is intended that these studies be concluded before the end of 1970 so that large-scale development, including the provision of major road access, can commence in the first years of the Second Malaysia Plan.

INCREASED OUTPUT FROM ALIENATED ACREAGE

189. By virtue of its accessibility and location, land already alienated for agriculture may offer attractive employment and income opportunities for a relatively modest amount of capital expenditure. Vigorous efforts must be made to increase per acre yields on acreage now under crops. The expansion of double-cropping by some 300,000 acres of padi land in the Muda and Kemubu projects will contribute significantly to fuller utilisation of labour and higher incomes for farmers who historically have been among the poorest. Appraisals of the Kemubu Scheme, for example, indicate that per farm cash incomes of absentee owners, tenants and operator-owners under double-cropping can be increased over present levels by

$60, $225 and $525 per year, respectively, even after full payment of water charges and land taxes sufficient to contribute some $800,000 per year toward amortisation of project costs.

190. For rubber smallholders the achievement of satisfactory incomes requires additional land in some areas and a stepped-up programme of replanting in most. These needs are particularly critical for the 40% of West Malaysian smallholdings which the 1960 Agricultural Census indicated were of less than three acres in size. Here attractive rubber prices and higher yields are helpful, but insufficient. These smallholder families must have additional land if adequate incomes are to be realised. To accelerate replanting with high-yielding materials, Government assistance for smallholders replanting will be expanded from the present maximum of about 45,000 acres per year to 60,000 acres.

191. Increased acreage per smallholder, high-yielding trees and expanded use of modern processing facilities will do much to ensure the longer-term economic viability of rubber smallholdings in Malaysia.

192. Full utilisation of lands which have been alienated but remain idle must also be encouraged. The opportunities here appear to be great. For example, preliminary evidence emerging from studies of land use in West Malaysia indicates that in 1966 approximately one acre in five alienated for agriculture was not being cropped. The reasons for this under-utilisation of land will be determined in the course of further study.

FOREST POLICY

193. A study, assisted by the UNDP/Special Fund, is now underway to determine the quantity and quality of Malaysia's forest resources and to outline a comprehensive programme for the development of timber-based industries. A second UNDP-assisted project in this area is examining the possibility of pulp production in Malaysia from quick growing pine species. This will determine the feasibility of local commercial plantations and will provide training in plantation management, species selection and tree breeding. Other steps are being taken to ensure the rational development of the timber industry. Policies will be adopted to ensure that lands which are suitable for permanent forest production will be reserved for this purpose and brought under sound management. The opening of new land for agricultural development will be systematically coordinated to ensure proper utilisation of the timber resources in these areas. Restrictions on the export of logs will be reviewed in the light of the present strong world market for forest produce. But, at the same time,

domestic wood-processing industries will be encouraged to expand rapidly by appropriate fiscal and forest licensing policies. In addition Government will continue with efforts to increase the productivity of the forests through research on timber utilisation, silviculture and forest management. In order to cope with the increasing demands of forest management, forestry education will also be expanded. With these policies and the expectation of continued strong prices for forest products, the gross value of round timber production in Malaysia is projected to increase from about $485 million in 1965 to more than $1,000 million in 1970.

III.—REVISED DEVELOPMENT PROGRAMME FOR AGRICULTURE, 1966-70

194. The revised allocation for agricultural development in Malaysia during 1966-70 is $1,177.9 million, up about 8% from the figure in the Plan. The biggest increases in dollar terms are for programmes of rubber replanting, land development, drainage and irrigation. Generally these increases reflect a combination of programme expansion and greater than expected development costs. Big percentage increases from original allocations occur in extension, forestry, rural credit, marketing and agricultural research. Due to project rephasing, allocations for animal husbandry, agricultural education and fisheries have been reduced from the Plan figures. Development funds expended during the first three years of the Plan for agriculture, forestry and fisheries are estimated at about $556 million, or 51% of the original 1966-70 allocation.

195. This expenditure programme helps to chart the path of agricultural development in future years. Over the longer term, timber will undoubtedly continue to be a leading growth industry in Malaysia; in 1969 itself timber exports are expected to rank second only to rubber in importance. Moreover, this industry offers the raw material base for a wide range of manufactured forest products for which a strong and rapidly growing world market exists. Malaysia's extensive coastline and productive fishing grounds also offer attractive possibilities for expansion of the fish catch. But here, too, the emphasis must be upon the export market if recent growth rates are to be maintained.

196. For two of Malaysia's major agricultural commodities—rubber and palm oil—economic prospects depend in large part upon the extent to which production costs can be reduced and market outlets expanded or new ones developed. There is cause to be hopeful. Further industry-wide improvements in rubber production and processing can be expected on the basis of research already in progress. And there is good reason to believe that the excellent work of the RRI and the private sector in rubber can be duplicated for oil palm by MARDI and other research groups.

197. More generally, the success of Malaysia's development efforts in agriculture will continue to depend upon the effectiveness, in 1969-70 and beyond, of research programmes to improve productivity and develop new crop and livestock possibilities; training programmes to produce greatly increased numbers of skilled agriculturalists; the modernisation of marketing, land tenure and credit systems, agricultural processing and producer organisations; and a rate of land development which is sufficiently rapid to provide remunerative job opportunities for the rapidly growing labour force. Efforts will be intensified in these areas. With continued forward movement Malaysia's agricultural sector can in future years provide the income and employment opportunities, the foreign exchange earnings and the food and raw material supplies required for broadly-based economic progress.

TABLE 3-2

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR AGRICULTURE, FORESTRY AND FISHERIES, 1966-70

($ millions)

	Plan Target 1966-70	*Estimated Expenditure 1966-68*	*Achievement %*	*Revised Plan Target 1966-70*	*Balance to Complete 1969-70*
Agriculture	267.5	158.7	59.3	315.7	157.0
Research	23.2	—	—	25.6	—
Education	15.7	—	—	6.6	—
Extension	12.5	—	—	26.0	—
Rubber Replanting	160.2	—	—	193.6	—
Other Crop Subsidies ...	55.9	—	—	63.9	—
Animal Husbandry	33.8	11.5	34.0	29.0	17.5
Fisheries	22.3	4.7	21.1	21.7	17.0
Forestry	12.4	8.1	65.3	21.4	13.3
Drainage and Irrigation ...	332.7	185.6	55.8	349.9	164.3
Land Development	375.9	172.5	45.9	393.0	220.5
Rural Credit and Marketing ...	37.0	14.9	40.3	47.0	32.1
Emergency Contract Personnel	5.0	—	—	0.2	0.2
Total ...	1,086.6	556.0	51.2	1,177.9	621.9

CHAPTER IV

Manufacturing

I.—OBJECTIVES AND ACCOMPLISHMENTS

198. In the words of the First Malaysia Plan, "If national income and employment are to rise over the next twenty years as envisaged in the Perspective Plan . . . considerable structural changes in the economy will have to occur, with industry accounting for an increasing share of the total. The promotion of accelerated development in manufacturing activity is therefore important . . ." The Plan called for an annual increase in output (value added) of 10% in West Malaysia and a rise in employment of 36,000 over the period 1966-70.

199. West Malaysia accounts for well over four-fifths of all manufacturing activity in the country. For this reason, the analysis of the development of manufacturing in the first section of this Chapter is focused primarily upon West Malaysia. The discussion of industrial development strategy in Section II, however, applies to the country as a whole.

200. The objectives of accelerated industrial development in Malaysia are multi-fold:

(i) fuller and more efficient use of the country's vast reserves of natural resources, together with greater domestic processing of agricultural raw materials;

(ii) expansion of the economic base of the country and introduction of new lines of activity to reduce Malaysia's dependence upon the present narrow range of traditional, raw-material exports;

(iii) generation of higher income through expanding production for domestic use as well as increased output of manufactured products for export; and

(iv) provision of employment opportunities for a rapidly growing labour force.

201. The creation of job opportunities is important in all areas of development; however, it must be recognised that the manufacturing sector alone will provide relatively few new jobs in the immediate future. The elimination of unemployment and underemployment, particularly in rural areas, and the narrowing of the rural-urban income gap depend primarily upon an aggressive policy of opening up new land for agriculture and forest development. Rapid industrial growth will help to provide employment for those not absorbed in the expanding agricultural sector.

CONTRIBUTION OF MANUFACTURING TO GDP

202. The performance of the manufacturing sector during the first two years of the Plan period has been commendable. The estimated average annual increase in net manufacturing output in West Malaysia (at current prices as recorded in the national accounts) during 1966 and 1967 was 9.8% as compared with an annual growth rate of 9.2% from 1960-65. Employment in manufacturing, however, advanced at a rate of only 3% per annum *vis-à-vis* a projected increase of 3.9%. The high rate of growth of manufacturing raised this sector's share in GDP from 8.7% in 1960 to 10.2% in 1965 and to well over 11% in 1967; by 1970 it is expected that manufacturing will account for close to 13% of GDP.

203. The Plan target for industry may appear high in relation to what has been achieved in the manufacturing sector in many other developing countries, but it represents only a modest improvement over Malaysia's own accomplishments during the first half of this decade. Moreover, between 1962 and 1965 manufacturing output in West Malaysia grew at an average annual rate of 14.1%, albeit from a base of less than $500 million. Thus, the Plan target of 10% represented a reduction from the growth rates achieved in the preceding three years. The growth of manufacturing output appears to have fallen substantially since 1965: an 11.7% gain in 1966 was followed by an estimated rise of 8% in 1967. West Malaysian industries covered in each of the Department of Statistics annual Manufacturing Surveys from 1963 through 1967—a group which embraces just under 70% of total manufacturing output—recorded an 18.9% annual increase in production between 1963 and 1965. During 1966-67, the growth of output of these industries dropped to 11.4% per annum.

204. Employment in the manufacturing sector has not matched Plan projections. Between 1965 and 1967 about 11,000 new jobs in manufacturing were created, but employment for another 25,000 must be found in this sector by 1970 to realise the goal of the Plan. Table 4-1 summarises

output and employment projections and achievements through 1967. Thus, whereas manufacturing industry provided roughly 5,500 new jobs in each of the first two years of the Plan, it must generate an average of 8,300 employment opportunities per year if the Plan target of 36,000 new jobs is to be met.

205. The development of manufacturing activities in East Malaysia is progressing slowly and is still confined largely to a few specialised fields. The States of Sabah and Sarawak have abundant timber resources and their coastal waters appear to offer opportunities for a greatly expanded fishing and fish processing industry. In both States lumbering activities are important, but the bulk of timber exports are in the form of round logs. A few firms producing sawn timber and plywood for export have been established, particularly in Sarawak. There are also a number of establishments processing prawns for export. Foreign capital has been important in launching these processing and manufacturing ventures. Smaller manufacturing activities producing items such as wire fencing, nails, plastic goods, cement pipes and other consumer products for the local market are also being developed.

TABLE 4-1

WEST MALAYSIA: INDUSTRIAL OUTPUT AND EMPLOYMENT, 1960-70

	1960	*1965*	*1966*	*Preliminary 1967*	*Plan 1970*
GDP at factor cost ($ million)	5,197	6,844	7,180	7,300	8,652(1)
Net manufacturing output ($ million) ..	452	701	782	845	1,129(2)
Share of GDP (%)	8.7	10.2	10.9	11.6	13.0
Employment in manufacturing (000) ..	165.8(3)	181.7	187.1	192.7	218
Net manufacturing output, excluding rubber processing ($ million)	270	575	651	730	

Average Annual Growth Rates (%)

	Actual 1960-65	*Plan 1965-70*	*Actual 1965-67*	*Required 1967-70*
GDP at factor cost	5.7	4.8	3.3	5.8
Net manufacturing output ...	9.2	10.0	9.8	10.1
Employment in manufacturing	3.1(4)	3.9	3.0	4.1

CHANGING STRUCTURE OF MANUFACTURING OUTPUT

206. Two significant trends affecting the structure of manufacturing output valued at current prices are worthy of special note. First, the absolute and relative importance of rubber processing in total manufacturing activity

(1) 1965 GDP projected at 4.8% growth rate.
(2) 1965 manufacturing output projected at 10% growth rate.
(3) 1962.
(4) 1962-1965.

has declined sharply since the start of the present decade. In 1960 rubber processing accounted for 40% of net manufacturing output and contributed $182 million to GDP. By 1967 this activity represented only 14% of manufacturing, and value added of $115 million. In the years ahead net output from rubber processing is likely to remain fairly stable. However, palm oil processing can be expected to rise in importance.

207. Second, the value of capital and intermediate goods production appears to be rising as fast as the production of consumer goods. In fact, the share of consumer goods (food, beverages, tobacco, furniture, paper and leather products, and miscellaneous manufactures) in total domestic manufacturing output may have declined slightly to approximately 40% of the total excluding rubber processing between 1960 and 1966. This indicates that Malaysia's industrialisation has been based not solely upon import substitution within the consumer goods area, but upon a wide range of manufacturing activities including production for export.

ACHIEVEMENTS IN MANUFACTURING, 1966-68

Manufacturing output, 1966-67

208. The Plan incorporated a target rate of increase in manufacturing output of 10% per annum. It singled out six industry groups (food and beverages, wood products, rubber products, chemicals and chemical products, basic metals, and machinery manufacturing industries) as ones which were expected to play a leading role in industrial growth and to record annual average output gains of 10% or better. As indicated in Table 4-2, only one of these six industries in Category 1 (food and beverages) scored an annual average increase in output of more than 10% between 1965 and 1967, while four of the groups grew at rates between 4% and 6%. By contrast, rubber remilling (off estates) and latex processing, tobacco products, textiles, printing and publishing, plus a large miscellaneous group of "other" industries, all recorded a growth of output in the range of 12-25% per year during the 1966-67 period. Net output of these latter industries (Category 2) was approximately equal to that of the "leading" six in 1965, but by 1967 output of this presumably less promising assortment had moved well ahead of those in Category 1. This illustrates the difficulty of predicting which industries are likely to manifest the highest growth rates in an open, private-enterprise economy.

209. It is quite possible that by the end of the Plan the ranking of industries in terms of growth rates will change significantly and those earlier earmarked as pace-setters in the manufacturing field may well move to the fore. In particular, wood products (especially plywood and sawn timber),

the chemical products group (which includes crude palm oil processing) and food processing (embracing rice mills and animal feed production) are likely to grow very rapidly in the next few years. By contrast, import-substitution industries such as tobacco products, printing and publishing, and processed milk, having now captured a large share of the domestic market, may find their further growth limited to a rate more in line with the expansion of total demand.

210. Whereas manufacturing output from those industries covered in the 1965 Survey grew at an average rate of 11.8% in 1966 and 1967, employment rose only 5% annually. That is, between 1965 and 1967 substantially more than half the increase in manufacturing output may be attributed to rising labour productivity. In view of experience elsewhere, this is to be expected but it does highlight within the Malaysian context the typical spread between the growth of industrial output and the growth of employment in manufacturing: the latter generally lagging well behind.

211. In those six Category 1 industries where particularly rapid output gains were expected, value added rose 7.7% per year and employment 5.5%. This suggests that these industries experienced a relatively low rate of productivity increase. In all other industries covered by the Survey, output rose 15.2% per year but employment increased by only 4.4% annually. These figures imply an annual rate of growth of labour productivity of 2.1% in Category 1 and of more than 10% per year in all other industries.

212. During the first two years of the Plan, exports of manufactured goods from West Malaysia (excluding rubber, palm oil and tin) just kept pace with the growth of output of the manufacturing sector as recorded in the annual Surveys. Two aspects of the pattern of recent industrial growth give cause for concern. First, industries engaged in processing local raw materials—for domestic consumption and export—have not led in the expansion of the industrial sector. The output of timber products, for example (despite the excellent performance of plywood which, however, remains but a small fraction of this industry), grew at less than half the rate of all manufacturing during 1966-67; the output of rubber products was little better.

213. Second, and more generally, the growth rate of manufactured exports—absolutely and in relation to manufacturing output—has declined. Between 1963 and 1965 net industrial output of firms covered in the annual Surveys rose almost 19% per annum and manufactured exports rose at an annual rate of 27%, thus providing a significant stimulus—above and beyond the rapid expansion of the domestic market—for new investment in manufacturing. More recently (1966-67) total net output and exports of manufactured items have been rising at just over 11% annually. Since the expansion and/or establishment of export industries often warrants more active

Government assistance than does the creation of import substitution industries, more detailed investigation of the development prospects of raw material based industries, including an assessment of the export potential of such industries, will receive high priority in the immediate future.

214. Malaysia has seen the establishment of several major new industrial ventures since the start of the Plan. Among the more notable examples during the past three years have been a fully integrated iron and steel mill, a large chemical fertiliser factory and a series of automobile assembly plants. Less spectacular perhaps, but of greater significance for the national economy, have been the expansion from 11 to 19 in the number of plywood mills since 1965; the rapid growth of the textile industry, which now embraces approximately 50 establishments with combined sales of over $50 million per year; the growth of the domestic printing and publishing industry; and the almost phenomenal expansion of cement production, sparked initially by the local building boom and more recently by the realisation of export opportunities.

Manufacturing employment, 1966-67

215. One of the most important consequences associated with the expansion of manufacturing industry within developing countries is the rapid gain in labour productivity. The tendency for productivity in manufacturing to rise more rapidly than in other sectors of the economy during this stage of development reflects the increasing efficiency of modern, large-scale industrial operations and the use of greater amounts of capital equipment and mechanical power per employee. This is not only highly desirable, but represents the very essence of economic growth and progress. Rising labour productivity is an indication that the national economy is enjoying an increasingly better return on its resources. At the same time, however, it must be recognised that employment in manufacturing cannot be expected to grow at nearly the rate of industrial output; nor will manufacturing employment rise in relation to the labour force as rapidly as manufacturing output grows in relation to GDP.

216. In Malaysia, as elsewhere, the rise in total manufacturing employment is affected by productivity gains within particular industries and the mix or pattern of industries established. Output per man-hour is largely the result of technologically determined production functions. If firms are to be competitive in terms of price and quality, especially in the export market, there is generally little scope for substituting labour for capital within an established production process. However, Government can have an important influence upon the overall composition of the industrial

sector by the application of judicious fiscal measures. The task of Government is to attract that type of industry which will make maximum use of those resources, particularly labour, which are in abundant supply in Malaysia.

TABLE 4-2

WEST MALAYSIA: OUTPUT AND EMPLOYMENT IN MANUFACTURING INDUSTRIES, 1965-67*

Industry	1965 Net output ($ million)	1965 Employment (00)	1967 Net output ($ million)	1967 Employment (00)	Growth rate 1965-67 Net output (%)	Growth rate 1965-67 Employment (%)
Category 1:						
Food and beverages	51.3	74.7	65.7	79.1	13.2	2.9
Food	41.7	56.9	51.0	61.5	10.6	4.0
Beverages	9.6	17.8	14.8	17.6	23.7	−0.5
Wood products	57.9	131.1	63.2	147.2	4.5	5.9
Sawmills	49.6	102.8	51.5	111.9	1.9	4.3
Plywood	4.2	16.5	7.7	24.0	35.8	20.5
Rubber products	34.7	74.4	39.0	72.3	5.5	−1.4
Chemicals and chemical products	55.3	45.4	62.0	50.4	5.0	5.3
Basic metals	25.3	52.7	29.7	69.7	5.7	15.0
Machinery manufacturing industries	12.6	33.1	15.2	39.0	10.0	8.5
Sub-total	*237.0*	*411.4*	*274.8*	*457.6*	*7.7*	*5.5*
Net output per employee	$5,760		$6,000		2.1	
Category 2:						
Rubber remilling (off estates)	19.9	50.5	25.1	48.9	12.3	−1.6
Latex processing	15.8	25.6	20.2	29.1	13.1	6.6
Tobacco products	40.1	35.9	62.5	37.2	25.8	1.8
Textiles	11.1(2)	32.5(1)	13.8	33.5	24.3(2)	3.0(2)
Printing and publishing	32.7	73.5	46.0	82.5	18.6	5.9
Other industries and firms covered in Surveys	155.5	162.3	197.5	183.7	12.7	6.4
Sub-total	*275.1*	*380.3*	*365.1*	*414.9*	*15.2*	*4.4*
Net output per employee	$7,234		$8,800		10.3	
Total	*512.1*	*791.7*	*640.0*	*872.5*	*11.8*	*5.0*
Net output per employee	$6,470		$7,335		6.5	

* Refers to those industries covered in the 1965, 1966 and 1967 annual Surveys, together with all other pioneer establishments regardless of industry. These industries and firms account for approximately 75% of total net manufacturing output.

(1) 1966.
(2) 1966-67.

217. Between 1965 and 1967 net output per employee in those industries covered by the annual Survey rose from $6,500 to more than $7,300. That is, while net output rose 25% during this period, employment advanced only 10.5%, suggesting an incremental output per worker of $15,700 or more than twice the average rate in all industry. The conclusions to be drawn from this are that while manufacturing may become a leading and very important growth sector of the economy, it is unlikely to provide a significant number of new jobs in relation to annual increments in the labour force—for many years. Thus, although the share of manufacturing in West Malaysia's GDP is expected to increase by more than one-half to approximately 13% during the decade of the sixties, industrial employment as a fraction of the total labour force is likely to remain almost constant at about 7% throughout the decade. This again emphasises the importance of agriculture as the major present and prospective source of employment opportunities in Malaysia. Estimates of the manufacturing sector's share of total output and employment are summarised in Table 4-3.

TABLE 4-3

WEST MALAYSIA: SHARE OF MANUFACTURING IN EMPLOYMENT AND OUTPUT, 1962-70

	1962	*1965*	*Estimate 1970*	*1962-70 Growth Rate*
Labour force ('000)	2,492.3	2,773.9	3,208.3	3.2%
Employment in manufacturing ('000)	165.8	181.7	208.6	3.0%
Share (%)	6.7	6.6	6.5	—
GDP ($ million)	5,496	6,844	8,650	5.8%
Output of manufacturing ($ million)	472	701	1,130	11.5%
Share (%)	8.6	10.2	13.1	—

Developments in manufacturing during 1968

218. Preliminary and incomplete data indicate that the manufacturing sector continued to expand rapidly during 1968. One indicator of this is the 20% growth in consumption of electric power by manufacturing and commercial establishments during the first half of the year, compared with a 16% gain in the comparable period a year earlier. Exports of selected manufacturing industries, which accounted for more than half of total manufacturing exports in 1967, recorded a 28% growth for the first ten months of 1968, as compared to a 15% increase during the comparable 1967 period.

219. The production of sawn timber for export, which had gone up by 19% in 1967, accelerated further in 1968 and by the end of October exports were up 37% by volume and 53% by value over the first ten months of the previous year. The value of plywood shipments abroad advanced a further 73% during the first ten months of 1968. Cement production and exports rose 12% and 2%, respectively, during the first nine months, while apparent domestic consumption (including stock changes) also increased appreciably.

220. Production and exports of a broad range of manufactured rubber products such as sheeting, compounds, tubing, hoses and mattresses also recorded good gains during January to October 1968. Exports rose 23% (to $16 million) over the comparable period in 1967. Exports of paints, medical products and cleansing preparations amounted to $28.9 million during the first ten months of 1968—an 8% increase over 1967. Exports of iron and steel products advanced 23% during the first ten months of 1968 compared to the previous year.

EXPORTS OF MANUFACTURED PRODUCTS, 1963-67

Exports from West Malaysia

221. During the five-year period 1963-67, total exports of products manufactured in West Malaysia (excluding rubber and palm oil processing and tin metal) doubled to $419 million as shown in Table 4-4. Total sales of domestic manufacturing industries covered by the Survey in both 1963 and 1967 increased to $2,096 million, indicating an annual average growth rate of 10.2%. Total net manufacturing output of these industries increased 15.1% per year.

222. Exports of manufactured products (excluding re-exports but including shipments to East Malaysia) grew at an average rate of 19.2% between 1963 and 1967. As a share of total exports, which rose only 3.4% between 1963 and 1967, exports of manufactured products increased from 8.6% to 15.1% during this period. While the share of manufactures in exports is expected to continue rising, the relative importance of this group of exports is unlikely to increase as rapidly during the balance of the Plan period as it has since 1965 because the value of total exports, after dipping slightly in 1965-67, is projected to show significant growth in the next three years.

223. A large proportion of West Malaysian manufactured exports is accounted for by food products, sawn timber, plywood and veneer, chemicals and chemical products. The combined exports of these products accounted for roughly 80% of total exports of manufactured products in 1963 and about 68% in 1967.

224. The exports of food manufacturing industries doubled between 1963 and 1967, rising at an average annual growth of 18% to $128 million. In 1967 food products accounted for 30.5% of total manufacturing exports. Well over a third of 1967 exports of food manufactures was accounted for by canned pineapples, mainly to the United Kingdom and the United States. Milk and cream, chiefly condensed milk, accounted for 13%. Shipments of these products were largely to Singapore and East Malaysia. Exports of alcoholic drinks increased four times between 1965 and 1967 and accounted for 5% of this category in the latter year. With the establishment of domestic milling capacity, exports of flour rose rapidly and in 1967 amounted to $10 million, 8% of manufactured food exports. These four industries accounted for three-fifths of all manufactured food exports in 1967.

225. Exports of manufactured wood products also doubled over the same period to $84 million. In 1967 these items accounted for a fifth of total manufacturing exports. Exports of sawn timber, primarily to Australia and Singapore, accounted for more than four-fifths of wood products exported in 1967. Exports of plywood and veneer, mainly to the United States and the United Kingdom, increased from $2.1 million (35% of total sales of the plywood and veneer industry in 1964) to $12 million in 1967 (61% of sales). The plywood and veneer industry is by far the fastest expanding export industry for, during the three year period 1964-67, total output more than doubled to $7.7 million and total sales trebled to $19.7 million, while exports increased nearly six-fold.

226. Exports of chemicals and chemical products accounted for 17.2% of total manufacturing exports in 1967. The average annual rate of growth has been 6.5% since 1963. The principal chemical products exported are soap and cleansing preparations, paints, enamels, medicinal and pharmaceutical products, mainly to Singapore and Hong Kong.

227. Rapid growth was also recorded in the exports of textiles, non-metallic mineral products and metal products and machinery. Textile exports trebled between 1963 and 1967 to $14 million. Exports of non-metallic mineral products rose to $14 million in 1967. Cement, destined chiefly for Singapore and Thailand, accounted for nearly 80% of the latter amount. Exports of metal products and machinery more than doubled to $18 million between 1963 and 1967, growing at an average annual rate of 27%. The doubling of exports of metal products and machinery between 1965 and 1966 was accounted for by a marked increase in the exports of

galvanised steel sheets and plates, principally to East Malaysia and Singapore. There were also substantial increases in exports of prefabricated iron building materials and flashlight batteries, mainly to Singapore and Kenya.

228. Since the establishment of two domestic oil refineries in 1963-64 exports of petroleum products have recorded very rapid growth. This large increase in exports is primarily taken up by shipments of motor fuels and kerosene, principally to Thailand and South Vietnam. These increasing exports also reflect the fact that the two refineries produce certain products well in excess of the requirements of the country and channel these surpluses abroad.

229. Exports of rubber products have not shown any significant progress during the four-year period. Increased shipments of rubber products such as tyres and tubes, mainly to Sabah and Sarawak, have been off-set by decreased exports of fabricated rubber materials such as vulcanised sheets and rods to Western countries, primarily the United Kingdom and Canada.

Exports from East Malaysia

230. Total exports from Sarawak in 1967 were approximately $388 million. Of this amount, exports of the major manufactured products are estimated at $169 million, roughly three-quarters of which consist of petroleum products, refined mainly from imported crude oil. Sawn timber exports amounted to $36 million, shipped mainly to Germany and the United Kingdom. Exports of plywood, veneer and other wood products amounted to $10 million, the main markets for which are Canada and the United States. Other manufacturing industries are not sufficiently developed to contribute significantly to exports from the State.

231. Sabah's exports of locally manufactured products amounted to less than $10 million in 1967. Saw-logs and veneer logs accounted for over three-quarters of the State's total exports of $410 million. Processed marine products, valued at $7.1 million and shipped mainly to Japan and the United States, are the major items among manufactured exports. Other exports of Sabah's manufacturing sector include veneer, plywood and small quantities of sawn-timber.

232. Future growth in the manufacturing sector in both Sabah and Sarawak is expected to come principally from the rapidly developing export-oriented wood and processed marine product industries.

TABLE 4-4

WEST MALAYSIA: EXPORTS OF MANUFACTURED PRODUCTS, 1963-67*

($ millions)

	1963	1965	1967	1963-67 Absolute increase
Food Industries	66	97	128	62
Textiles and Footwear	4	10	14	10
Wood Products	43	65	84	41
Rubber Products	21	29	23	2
Chemicals and Chemical Products	56	65	72	16
Petroleum Products	3	45	51	48
Non-Metallic Mineral Products	1	7	14	13
Metal Products and Machinery	7	9	18	11
Miscellaneous Manufacturing Industries	7	10	15	8
Total	208	337	419	211
Total Exports	2,428	2,940	2,778	350
Share of Manufacturing Exports	8.6%	11.5%	15.1%	—
Total Sales of Manufacturing Industries Covered by Annual Surveys:				
1963 Coverage	1,421	1,851	2,096	675
1965 Coverage	—	1,955	2,231	276(1)
Share of Manufacturing Exports:				
1963 Coverage	14.6%	18.2%	20.0%	—
1965 Coverage	—	17.2%	18.8%	—
Net Output of Manufacturing Industries:				
1963 Coverage	321	463	574	247

Average Annual Growth Rates (%)

	1963-65	1963-67	1965-67
Total Exports of Manufactured Products	27.0	19.2	11.5
Total Exports	10.0	3.4	−2.8
Total Sales of Manufacturing Industries Covered by Annual Surveys:			
1963 Coverage	14.1	10.2	6.4
1965 Coverage	—	—	6.8
Net Output of Manufacturing Industries:			
1963 Coverage	18.9	15.1	11.4

* Excludes rubber processing, basic metals (chiefly tin) and palm oil.
(1) 1965-67.

IMPORTANCE OF AGGREGATE DEMAND

233. The central role in the acceleration of manufacturing development must be played by the private sector. To assist the private sector to meet the target output and employment goals set forth in the Plan, Government will give strong support in the form of expanded infrastructure facilities, better designed investment incentives and improved sources of finance. However, resumption of strong growth trends elsewhere in the economy, particularly in agriculture, is also essential to continued rapid progress in manufacturing. Government incentive schemes can provide an important stimulus to industrialisation, but the real incentive must come from an expansion of demand for manufactured products. In the Malaysian context this implies raising output and incomes in the agricultural sector. Despite wide disparities in rural-urban *per capita* income levels, much of the country's purchasing power originates from the production of agricultural commodities. Further, growth of the agricultural sector (including forestry and fishing) is expected to provide a major market for producer goods and manufactured intermediate products.

234. While continuing to maintain its free-enterprise policy, Government will provide special encouragement to those new or expanding industrial ventures whose prospects for sound, long-run growth appear particularly promising. Government support to industry will be concentrated in those areas offering the best possibilities for production which will prove competitive with imports and where export potentialities are significant. Beyond providing general incentives which recognise the country's factor endowments, Government will not attempt to dictate the pattern or location of industry, or interfere with industry's choice of production techniques. However, before granting special subsidies—whether in the form of tax relief, import protection or monopoly control of particular markets—Government must be convinced that these incentives are justified in terms of the national interest, having regard not only to the industrial sector but also to the competing demands of all other sectors of the economy, including consumers.

235. With these objectives in mind, special encouragement will be given to industries which fall into one or more of the following categories:

(i) industries which are labour intensive;

(ii) industries which utilise domestic raw materials, particularly timber-based and agriculture-based industries, as well as those which can provide further processing of the country's traditional tree crops;

(iii) industries which manufacture capital or intermediate goods for which extensive markets already exist or are in prospect, e.g., machinery for rubber and palm oil processing and for lumber mills; and

(iv) export industries.

236. Government—particularly the Federal Industrial Development Authority (FIDA)—will, in future, give greater attention to the development of investment incentives which are specifically designed to assist firms and industries of the types listed above. Hitherto, the country's investment incentives have been adequate to meet the requirements of early industrialisation, in which import substitution for a wide range of consumer and capital goods has provided a principal stimulus. Continued expansion of the industrial sector will require concentration upon production for expanding markets (domestic and foreign), rather than simply import replacement within the framework of established markets.

237. Experience during the first three years of the Plan illustrates the difficulty of attempting to forecast the future pattern of industrial development in an open free enterprise economy. For this reason, Government planning will concentrate on providing the various infrastructure services, both physical and administrative, required to support a growing industrial sector, and not attempt to specify any detailed programme for manufacturing industry. Since many industries will have drawn up their own plans for expansion and diversification, close co-operation is needed between the public and private sectors to ensure that Government expenditure on infrastructure services for industry is directly related to industry's requirements.

238. Private firms and individuals invest to make profits. Under conditions such as those prevailing in Malaysia, the expected return on investment—if the investment opportunity is to appear attractive—must frequently be substantially above what a similar investment could be expected to earn in a more developed country. In Malaysia, private savings and retained earnings of companies are the most important sources of investment funds. Profits not only reflect past success; they are the key to future growth and expansion. The tax treatment of company profits may therefore have a crucial bearing upon the direction and composition of future investment. Government will encourage accelerated industrial growth through the adoption of judicious fiscal policies.

239. For the past three years the Malaysian economy, including the manufacturing sector, has been operating at less than full capacity. A principal cause of this slack—evidenced by, *inter alia*, the slow rise of

imports, a marked reduction in the rate of growth of construction activity, only modest expansion of private investment, a falling rate of growth of production for domestic use and the persistence of the unemployment problem—has been the relatively slow growth of aggregate demand following upon the drop in export prices. The substantial rise in planned public development expenditure in 1969 and 1970, therefore, is designed not only to provide needed infrastructure, but also to raise the rate of growth of overall demand, including the demand for locally produced manufactured products. Expanding markets—both domestic and foreign—will mean higher profits, lower unit costs and enhanced inducements to invest.

INVESTMENT INCENTIVES

240. Specific tax incentives have played an important role in Malaysia's past industrial growth. Such incentives will continue to be important and Government will strive to use them even more effectively in the future. Government recognises that special tax adjustments for firms meeting predetermined criteria are one effective means of raising manufacturing profits, and thereby encouraging new investment in particular growth sectors of the economy. Temporary tax relief, accelerated depreciation, investment allowances and other devices which reduce a firm's current tax liability are a form of public investment in the private sector which will ultimately yield the country a return similar to that realised from direct development outlays such as investment in schools, roads and power facilities.

241. Tax incentives, direct subsidies or subsidies in the form of the provision of particular services may be desirable and important in connection with raising the volume and value of manufactured exports. Emphasis on manufactured exports will be increasingly important in the years ahead because of the expected slow-down in the pace of import substitution. As local producers increase their share of the total market for manufactured products there will be less scope for further import substitution. Steady growth of consumption within Malaysia, i.e., rising aggregate demand, will provide a continuing stimulus to investment and output. As the growth of import substitution industries tends to slow down, however, production for the domestic market will tend, more and more, to be limited by the rate of overall growth of the economy. Increasingly, therefore, the rate of, and stimulus for, industrial development will depend upon the expansion of exports. Government will therefore give more emphasis to those industrial and investment incentives which particularly favour export-oriented activities.

242. The principal tax incentives currently offered in Malaysia are those provided by the Investment Incentives Act of 1968. This Act reflects the results of the intensive review of the country's industrial promotion programme which was presaged in the First Malaysia Plan. The new Act authorises three major forms of incentives:

(i) *Pioneer Status*—Eligibility for pioneer status has been extended to non-manufacturing industries. A company granted pioneer status may enjoy a tax relief period of up to five years from the commencement of production, depending upon its capital investment. Additional years of tax exemption are given if a company is located in a designated development area; if it produces a priority product; or incorporates a specified amount of local content in its product. The maximum possible period of tax exemption is eight years. Pioneer firms are also exempt from payroll tax. The Act permits the carry-forward to the post tax-relief period of any losses incurred by a pioneer firm.

(ii) *Investment Tax Credit*—This incentive may be granted to companies which do not choose to seek pioneer status or which do not qualify for complete tax exemption. The tax credit (actually, an allowance against taxable income) will be not less than 25% of the qualifying investment and may be increased by increments of 5% if the firm locates in a development area, produces a priority product or meets specified local content requirements.

(iii) *Export Incentives*—Expenses incurred for export promotion are entitled to double deduction in determining taxable income. Accelerated depreciation allowances will be granted to resident companies which have incurred capital expenditure in acquiring plant or equipment to modernise their production facilities. Companies which export more than 20% of their output qualify for payroll tax relief in connection with their export sales. In addition, generous tax allowances are granted to companies which increase their exports.

TARIFF PROTECTION

243. Although the pace of import substitution is expected to slow down in the future, there are still many opportunities for domestic production in competition with imports. The number and content of new applications for pioneer status during the past year is evidence of the substantial scope remaining for the development of new industries catering principally to the domestic market. One of the major inducements for investment in such industries is the existence or prospect of tariff protection.

244. Government will continue to provide tariff protection for those industries whose establishment appears consistent with the country's industrial development objectives. In principle, however, this protection is designed to be temporary; it is not the intention of Government to support indefinitely firms which have little or no prospect of becoming viable in the absence of artificial isolation from foreign competition. The purpose of protective tariffs in the Malaysian context is to help firms surmount those obstacles which frequently beset nascent industrial ventures in developing countries. Inevitably, many costs are higher here than abroad, certain skills are scarce or non-existent, the market is limited, consumer preferences frequently favour imports, capital is expensive and firms must often provide for themselves certain infrastructure facilities offered by public authorities in more advanced countries. For these reasons some degree of protection may often be justified. However, such protection will not be used to shelter inefficiency; to protect firms which prove unable to strengthen their competitive position; or to permit firms to charge unreasonable prices.

245. The success of Malaysia's tariff policy must ultimately be judged by the contribution that import duties have made to the country's development and the ability of protected industries eventually to produce at competitive prices. Tariffs can contribute to the creation of sound, viable industries, including industries which will eventually be in a position to export. But tariffs may also spawn inappropriate manufacturing activities which, once established, are difficult to abandon despite the fact that they constitute a drain on the nation's wealth and draw resources from more productive uses. Therefore, in choosing and implementing its tariff policy, Government will give particular attention to the impact of duties upon the long-run industrial structure of the country. The agencies concerned in tariff formulation will undertake extensive research with a view to identifying those industries where cost reduction (and export expansion) are likely to follow from initial protection.

246. In practice, however, even with a major extension of research effort, it will be difficult for Government to identify all the industries which might prosper in Malaysia. For this reason attention will be given to the development of a consistent tariff structure which will provide some protection to promising industries without giving undue encouragement to those lines of production which have little long-run prospect of becoming economic. The selection of particular tariff rates will be determined not alone by reference to conditions in a single firm or industry, but with a view to the requirements of the industrial sector and the economy as a whole.

247. The Tariff Advisory Board (TAB) will take the lead in developing a rational tariff policy. Other Departments of Government and business organisations (representing importers, exporters and local manufacturers)

also have a role to play in this process. In particular, FIDA will work closely with the TAB in formulating a tariff structure that will give maximum encouragement to industrial development without subjecting the economy to unacceptable costs and distortions.

248. Import quotas will also be the subject of a close and coordinated review lest they too lead to an inefficient allocation of resources and hinder further growth. Temporary quotas may be a useful devise for assuring that local firms secure markets consistent with their production capacity, but quotas will not be allowed to shield inefficiency, nor will they be used in lieu of reasonable tariff protection once manufacturers have become established.

FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY

249. FIDA came into existence early in 1967 with the principal functions of coordinating and strengthening the country's industrial development programme. In addition it is responsible for the implementation of investment incentives and for publicising and promoting investment opportunities. In time FIDA will also be in a position to offer technical assistance—from plant layout to marketing—to individual firms and industries.

250. Although the Malaysian Industrial Development Finance Berhad (MIDF), MARA and the Ministry of Commerce and Industry are also involved in industrial promotion and the establishment of new firms and industries, FIDA shares with the Economic Planning Unit (EPU) the principal responsibility for planning the nation's overall approach to industrial development. In this capacity, FIDA will seek to identify those investment opportunities which appear most promising and will carry out whatever investigations are required to establish the potential viability of particular projects. In the immediate future FIDA will progressively gear its attention to those classes of products and industries which have the greatest potential, while at the same time exerting greater efforts to attract potential entrepreneurs into these specific lines of activity.

251. In view of the limited domestic market, the country's generous resource endowments in a few major areas (notably timber and land) and the existing or planned investments in rubber and oil palm, a logical programme of industrial expansion will concentrate on a relatively restricted range of manufacturing activities, together with ancillary enterprises designed to support or supply the country's major industries. Thus, in the near term, FIDA may be expected to direct its research and promotion efforts primarily toward industries in the field of timber, rubber and oil palm products, including capital equipment for these industries. Simultaneously,

FIDA will develop and propose additional investment incentives deliberately tailored to meet the needs of those specific industries which appear to enjoy above-average growth prospects. This means that in the future Government will give greater attention and support to export-oriented enterprises, since these inevitably will be the pace setters of industrial development.

252. The foregoing does not in any way preclude FIDA's continuing to provide assistance to the myriad small, domestic-oriented manufacturing ventures now in existence or to be established; nor does Government intend to restrict or withdraw any of the general investment incentives which have hitherto been provided. Rather, in the future, a more selective policy will be followed with respect to both the provision of fiscal inducements to invest and Government's general promotion efforts.

MAJLIS AMANAH RA'AYAT (MARA)

253. As indicated earlier, it is the policy of Government to leave industrial development largely to the private sector. One exception to this rule, however, relates to some of the activities of MARA. Under certain circumstances and to achieve particular objectives, MARA establishes and controls—by itself or jointly with private investors—industrial ventures which meet predetermined criteria.

254. Government has no intention to reserve to MARA any particular lines of economic activity or to preclude private investment in those fields in which MARA may choose to participate. On the contrary, it may be assumed that private firms will operate side by side with MARA enterprises in the development of the country's natural resources, in expanding manufacturing into new lines and in providing consumer services.

255. In selecting areas for investment in the industrial sector, MARA will apply the same cost/benefit criteria that are applicable in evaluating other Government investment decisions. The principal purpose of MARA in establishing publicly-owned enterprises is to provide opportunities for Bumiputra participation in commerce and industry. However, MARA will select ventures which promise to be viable in their own right (in terms of total costs and benefits to the community). This does not necessarily mean that all MARA ventures will show a profit in the normal commercial sense, but it does imply that MARA will make its investment decisions in terms of alternative uses of scarce public resources.

256. In those cases where MARA contemplates creation of an industrial enterprise, Government will assure itself that such an undertaking will, in fact, promote not only greater Bumiputra participation through ownership

but also the upgrading of skills and the active involvement of the Bumiputra in the management and operation of such ventures. Government will also assure itself that direct investment in business ventures is the most efficient method of achieving MARA's declared objectives.

INVESTMENT FINANCING

257. In Malaysia personal savings of individuals and retained earnings of companies are the major sources of finance for investment. These forms of financing are applicable to a large majority of manufacturing establishments in the country which are generally small in their scale of operations. Larger domestic companies and foreign-owned enterprises are in a better financial position because of their relatively easier access to commercial bank financing. Government recognises the importance of retained earnings as a factor determining the level of investment and is conscious that excessive taxation of profits could easily weaken the inducement to invest, particularly among small scale manufacturers.

258. Government will encourage commercial banks to depart from their traditional trade-oriented lending policies and play a larger role in the financing of industrial investment. To some degree the private banks have moved in this direction already as a result of competition among themselves. While seeking to place a larger fraction of the country's public debt with the commercial banks, Government will at the same time ensure that this does not adversely affect the banks' ability to lend to industry.

259. As indicated in Table 4-5, funds advanced to manufacturing industries represent approximately 15% of total commercial bank loans and advances.

TABLE 4-5

MALAYSIA: COMMERCIAL BANK LOANS AND ADVANCES TO MANUFACTURING, 1964-68

End December	*Total Loans and Advances ($ million)*	*Loans and Advances to Manufacturing ($ million)*	*Loans and Advances to Manufacturing (% of total)*
1964	1,083.7	164.4	15.2
1965	1,141.1	174.2	15.3
1966	1,286.2	192.5	15.0
1967	1,432.9	213.4	14.9
1968 (June)	1,666.8	259.1	15.5

260. To supplement short-term commercial bank financing of the manufacturing sector, Government has helped to establish MIDF as an institution to provide medium- and long-term industrial financing. As at the end of 1965, the Government contribution to MIDF amounted to $24 million ($22.5 million in loans and $1.5 million as share participation). An additional $16 million was made available in 1966 ($15 million in loans and $1 million as share participation).

261. Since its establishment MIDF has contributed towards the provision of medium- and long-term loans for manufacturing industries in Malaysia. Such loans are for the financing of land, buildings and machinery. MIDF also provides technical advice where necessary. As at the end of October 1968, MIDF had approved about $81 million in loans supporting more than 220 projects. Most of MIDF's loans have been for the financing of metal and non-metallic mineral products and the wood and rubber processing industries.

262. In recent years MIDF has expanded the facilities offered to the indigenous small-scale investor. However, on a national scale, MIDF's financial assistance to manufacturing industries is still small. From December, 1964 to December, 1967, total commercial bank loans and advances outstanding to manufacturing industries increased by $49 million. During roughly the same period, the loans and financial commitments of MIDF increased by only $15 million. The eight-year cumulative total of MIDF loans was less than one-third of outstanding commercial bank loans and advances to the manufacturing sector as at the end of June, 1968. As MIDF has ample uncommitted financial resources to meet possible industry demands for assistance, Government has urged MIDF to expand its operations and liberalise its lending policies, particularly in respect to the specialised needs of small and medium-scale industry.

INDUSTRIAL ESTATES

263. The development of industrial estates forms part of Government's strategy to provide infrastructure facilities for industries. On such estates the basic industry requirements such as land, water supply, electric power and efficient transportation facilities and other necessities like telephone services can easily be made available. At present there are eight established industrial estates in West Malaysia—Petaling Jaya, Batu Tiga, Mak Mandin, Kamunting, Tasek, Senawang, Larkin and Tampoi—covering an area of about 3,200 acres, of which 1,150 acres, or about 36%, have already been occupied. In addition, three other industrial estates embracing approximately 2,500 acres are currently under construction at Prai, Menglembu and Tanah

Puteh (Kuantan). In East Malaysia there are three established industrial estates at Kepayan and Likas (Sabah) and Sungei Antu (Sarawak) and another is currently being developed at Bintawa (Sarawak).

264. Several of the industrial estates have, however, been launched with insufficient regard to probable demand for the facilities provided. To avoid the disappointment and waste associated with uncoordinated industrial estate development, Government will in future provide assistance to the States for the establishment of additional industrial areas only after the project has been justified by thorough feasibility studies.

REVISED PROGRAMME FOR INDUSTRIAL DEVELOPMENT

265. The revised public development expenditure for industrial development under the Plan is estimated at $133.9 million. The estimated expenditure in the period 1966-68 was approximately $90.4 million, or roughly 80% of the original allocation.

TABLE 4-6

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR INDUSTRIAL DEVELOPMENT, 1966-70

($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
Majlis Amanah Ra'ayat (1)	70.0	48.0	68.6	78.4	30.4
Federal Industrial Development Authority	5.0	2.2	44.0	6.0	3.8
Malaysian Industrial Development Finance Berhad	16.0	16.0	100.0	16.0	—
Industrial estates	14.0	18.0	128.6	22.6	4.6
Borneo Development Corporation Ltd	4.2	2.4	57.1	4.0	1.6
National Institute for Scientific and Industrial Research	5.0	0.3	6.0	2.3	2.0
Malayawata Steel Ltd	—	3.4	—	3.4	—
National Productivity Centre ..	0.2	—	—	0.5	0.5
Standards Institute of Malaysia ..	0.1	0.1	100.0	0.7	0.6
Total ..	114.5	90.4	79.0	133.9	43.5

266. Approximately 60% of the total revised public development expenditure for industrial development of $133.9 million has been allocated to MARA, which will also receive $34.5 million for the capital cost of its Institute of Technology. Under its industry promotion programme for the

(1) Excludes capital cost of MARA Institute of Technology, which is included under Education and Training.

first three years of the Plan, MARA has established, invested and participated in a wide range of industrial and commercial undertakings, including a garment making factory, a batek roll factory, a bakery, a petrol service station and black-smithing services. In addition, MARA has started operation of an investment unit trust. It has also assisted many small cottage industries in its financial and advisory capacity.

267. Government contribution to MIDF in 1966, mainly in the form of loans, accounts for $16 million or 9% of the revised public development expenditure for industrial development.

268. A sum of $22.6 million has been provided for the development of industrial estates in West Malaysia. Of this amount $18 million has already been expended, largely for the acquisition and development of the Prai and Kamunting industrial estates. Government has also allocated $4 million for industrial site development in East Malaysia, to be undertaken jointly by the States of Sabah and Sarawak and the Borneo Development Corporation Limited. FIDA accounts for $6 million or about 4% of the total revised public development expenditure for industrial development.

269. Thirty acres of land have been acquired at Batu Tiga to accommodate both the National Institute for Scientific and Industrial Research (NISIR) and the Standards Institute of Malaysia. NISIR is not yet in operation, but with its establishment it is expected that research into the industrial use of Malaysian materials and related activities will be greatly facilitated.

CHAPTER V

Transport

I.—INTRODUCTION

270. Transportation plays a vital role in national development, not only in stimulating economic growth but also in fostering political and social cohesion. Effective transportation stimulates economic growth primarily by improving the existing pattern of production and distribution, generating new economic activities and widening the market for goods and services. In addition to these economic goals, efficient transportation also facilitates better public administration and enhances the internal security of the nation. Because of this vital role, the transport sector has always been accorded a substantial share of development expenditure in national development plans.

271. In 1965, however, when the Plan was being formulated, it appeared that, while the basic transport network in East Malaysia was in need of substantial improvements and additions, the West Malaysian network was basically adequate to handle demands through 1970. This was the result of the very substantial accomplishments of the previous Plan period and seemed to call for a marked shift in strategy for the First Malaysia Plan, so as to avoid creating excess capacity in the transport system. As a result, the Plan allocation was set at $546 million (as opposed to $747 million for the 1961-65 period). This represented a decline from 24% to 12% of the total public investment programme.

272. To assure the development of a coordinated transport system that will serve national objectives over the long term, Government, with the assistance of the United Nations Development Programme (UNDP) and the World Bank, began at the outset of the Plan to arrange for a Malaysia Transport Survey (MTS). The Survey commenced in mid-1967. The Consultants' Draft Report, which was received in September, 1968, is now being studied by Government. The Report examines in detail the existing transport system in Malaysia and indicates the future needs for transport services and investment

(in detail through 1975 and more broadly to 1985). Government is in general agreement with the direction of the recommendations, both in terms of the investment programme and policy changes, and will implement them within the limits of its financial and administrative capabilities.

273. Government will give careful attention to ensure that its transport policies are consistent with its investment programme and policies for the general economic development of the nation. In any event, the scarcity of investment capital makes it necessary in the interest of economic development to take those actions which promise to improve transport services and reduce transport costs, while requiring little or no capital investment. Very high priority is being given to improving the organisation for fact-finding, research, analysis and planning in the transport sector.

274. A Highway Planning Unit (HPU) was established in 1966 in the Public Works Department (PWD). Its prime responsibilities are to plan for coordinated road maintenance and improvement and to assure that these activities are conducted economically. To date, the HPU has been able to produce a detailed road inventory necessary for its planning work. It has also undertaken a number of traffic surveys. In addition to undertaking traffic surveys on a regular basis it will recommend standards for the various segments of roads and formulate plans for attaining and maintaining these standards. It will also conduct studies to select appropriate design, alignment and other characteristics of highway facilities. To enable the HPU to better perform its duties, its organisation will be strengthened by means of additional staffs and substantial training. In addition to the HPU, Government also established a Research and Planning Branch in the Ministry of Transport to undertake planning of all modes of transport on an integrated basis.

II.—PROGRESS IN 1966-68

275. Progress in the transport sector in 1966-68 has been highly variable—depending upon the transport mode and region of Malaysia. It has been slow, though for quite different reasons, on highways in West Malaysia and on the new port projects included in the Plan. In the case of the West Malaysian highway programme, some expenditures were deliberately deferred. In the absence of results of the MTS and given the public finance problem, budget allocations during 1966-68 were kept relatively low. Moreover, the PWD experienced difficulty in executing the projects approved and expending the funds allocated. As a result, it is estimated that only 41% of the original allocation was expended by the end of 1968.

276. In respect of the five major port projects—Port Swettenham, Kota Kinabalu, Sandakan, Kuching and Sibu—the delays were largely due to difficulties in obtaining and utilising foreign assistance on acceptable terms. However, feasibility studies have now been completed for Port Swettenham and Kuching, while it has been decided that a comprehensive study is not necessary for Sibu. Port Swettenham is in the design stage at present and the other two are about to enter the design stage. Agreements have recently been signed to cover feasibility study and preliminary design for Kota Kinabalu and Sandakan. All five projects will be under construction by early 1970.

277. The Butterworth wharves project, which was underway at the beginning of the Plan period, has proceeded according to schedule. Three berths are now operational, while the additional two container berths are scheduled to be completed by mid-1969 and will be operational in early 1970.

278. The East Malaysian highway programme has proceeded on or ahead of schedule. In Sarawak it is estimated that 56% of the original allocation was expended by the end of 1968. In Sabah fully three-quarters were expended. In addition substantial progress was made on the Sandakan-Kota Kinabalu highway, a project added to the original programme for Sabah.

279. Although the organisational, management and administrative problems which have contributed to unprofitable operations remain unsolved, the Railway has proceeded with its re-equipment programme. While the Plan made an allocation of only $20 million, pending the results of the MTS, total expenditure amounted to $34.7 million for the period 1966-68. Of this total $27.4 million was financed from the Railway's renewal funds. The balance came from the Federal Development Estimates. The purchase of ten diesel locomotives was delayed because of difficulties encountered in obtaining foreign financing on acceptable terms; however, these locomotives have now been ordered and the first deliveries will take place early in 1969.

280. In civil aviation, physical progress on the many relatively small projects which made up the original programme has been quite rapid. Expenditures to date have actually exceeded the original total allocation by about $20 million. This excess was caused by three factors: carry-forwards of expenditure on the Kuala Lumpur International Airport originally scheduled for 1965; tendency for costs to exceed original estimates and a $23.5 million equity subscription to Malaysia-Singapore Airlines (MSA) which had not been foreseen in the original programme.

281. It is estimated that about 57% of the original allocation for the overall transport programme for West Malaysia and 56% for East Malaysia was expended by the end of 1968. Table 5-1 provides details.

TABLE 5-1

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR TRANSPORT, 1966-70

($ millions)

	Plan target 1966-70	Estimated expenditure 1966-68	Achievement %	Revised target 1966-70	Balance to complete 1969-70
Highways	*389.5*	*192.1*	*49.3*	*430.9*	*238.8*
West Malaysia	255.5	105.9	41.4	256.0	150.1
East Malaysia	134.0	86.1	64.3	174.9	88.8
Sabah	54.2	41.6	76.8	99.8	58.2
Sarawak	79.8	44.5	55.8	75.1	30.6
Railways	*21.3*	*35.5*	*166.7*	*65.3*	*29.8*
West Malaysia	20.0	34.7	173.5	59.7	25.0
East Malaysia	1.2	0.8	66.7	5.6	4.8
Ports and Marine Services	*113.7*	*63.4*	*55.8*	*145.2*	*81.8*
West Malaysia	80.8	58.4	72.3	114.2	55.8
East Malaysia	32.9	5.0	15.2	31.0	26.0
*Civil Aviation**	*21.5*	*41.5*	*193.0*	*64.3*	*22.8*
West Malaysia	9.0	8.0	88.9	21.0	13.0
East Malaysia	12.5	10.0	80.0	15.8	5.8
*All Modes**	*546.0*	*332.5*	*60.9*	*705.7*	*373.2*
West Malaysia	365.3	207.0	56.7	450.9	243.9
East Malaysia	180.7	102.0	56.4	227.3	125.3

III.—THE MALAYSIA TRANSPORT SURVEY AND THE MID-TERM REVIEW

282. The Malaysia Transport Survey (MTS), as considered and reviewed by Government during the next few months, will serve as the basis for transport policy in the remaining two years of the Plan, and for the formulation of the Second Malaysia Plan. The Survey comprises a detailed and comprehensive review of all transport modes in the context of the expected development of the economy over the next seven years or so. Although consideration of the MTS Draft Report has not been concluded, certain important adjustments in priorities have already been made and these are incorporated in the 1969 Budget. It remains, however, to undertake a full-scale reconciliation between the investment programme for the remaining years of the Plan as it now stands and the programme recommended for 1969-70 in the MTS Draft Report. It is expected that this reconciliation will lead to further changes, which will be reflected in the Budget for 1970.

* Includes Government equity subscription to MSA not allocated by regions.

MTS RECOMMENDATIONS

283. The MTS recommends that Government adopt a more consistent and purposive policy for all its activities concerning the transport sector, aimed at providing the nation with transport at lowest feasible economic cost. To this end, the MTS recommends an ambitious investment programme, several important policy changes, and improvements to organisation for fact-finding, research, analysis and planning of the transport sector.

284. The Report also recommends that Government follow a rational investment policy in the transport sector, based on benefit/cost analysis. Investment in facilities to serve new agricultural and industrial development should be closely coordinated with the particular requirements and time phasing of these developments. Wherever possible, facilities should be provided in stages, corresponding to prospective traffic increases.

285. The Consultants made a detailed engineering appraisal of the condition and capacity of transport facilities and compared this with similarly detailed traffic estimates. This comparison reveals that substantial investment is needed to make up for recent developments, accommodate the growing traffic and serve important new development areas. For the period 1969-75 it is estimated that investment totalling more than $2,000 million would be required to meet these needs fully.

286. However, in the light of economic and fiscal projections as well as judgements as to the relative urgency of transport investment and other development expenditures, it was concluded that it was not economically justifiable to meet all the needs identified within the 1969-75 time period. The Consultants therefore recommended a scaled-down programme of $1,450 million, deferring lower priority items to later years. They emphasised that any further significant reductions or postponements would result in raising transport costs and thus be inimical to economic development.

287. The Report stresses that road investments cannot yield full potential benefits unless efficient road transport is available for those movements which this mode can handle at the lowest cost. The MTS therefore recommends that Government adopt a comprehensive road transport policy, the primary aim of which would be the assurance of sufficient road transport capacity and its efficient utilisation. In this connection, the MTS recommends a thorough review of the structure of road user taxes to induce efficient and equitable provision of transport services.

288. In regard to the Malayan Railway the MTS recommends that a comprehensive action programme be adopted quickly in order to gear management organisation and labour relations to efficient operation,

upgrade fixed plant and rolling equipment, imbue marketing and service performance with an aggressive commercial approach and rationalise Government's supervisory and financial relations with the Railway. Its management should be required to operate profitably and enabled to do so. The Railway's rate-making policy should also be reviewed to attract traffic which it can carry at lowest economic cost and not the traffic which can be carried at lower cost by road transport.

TRANSPORT OBJECTIVES AND PRIORITIES

289. Government agrees with the MTS that it is essential that the development of the transport sector during the 1969-75 period should follow a systems approach directed toward meeting primarily economic objectives. The central theme of this approach will be one linking the Malaysian producer and consumer to one another and to world markets by means of an efficient transportation network. To accomplish this objective, there will be three major categories of expenditure:

(*a*) Expenditures on new trunk and feeder roads and on certain road improvements in support of the land development effort. This portion of the road programme will be coordinated with major regional development studies and plans which will have as their aim the optimal utilisation of timber, mineral and particularly agricultural potentials in hitherto undeveloped, or incompletely developed, areas. The most important areas are in Pahang, Johore, Sabah and Sarawak's Fourth Division; however, North Malaya and other Divisions in Sarawak will be of increasing importance before the end of the period.

(*b*) Expenditures on ports, airports and related facilities to provide efficient, low-cost movement of goods and people into and out of the country, and between and within East and West Malaysia.

(*c*) Expenditures to improve the existing road and rail system—particularly in West Malaysia—to cater for increased volume and to reduce the cost of internal goods movement. This programme must both meet the requirements of the foreign trade sector and facilitate production for domestic use and the distribution of this produce at all stages of production.

290. Expenditures on all programmes and projects in the transport sector will be based on detailed benefit-cost analyses to establish that the projects are not only viable but that they also embrace the best means for meeting a given transport requirement.

291. In this connection, the Consultants have recommended important intermodal shifts in emphasis for all regions of Malaysia. In West Malaysia, airway and port development remains important, but road and rail transport have been given much more emphasis than in the original Plan. In Sabah, ports retain their place of first importance, but airports and roads have been stressed much more than in the Plan. In Sarawak, the Consultants have recommended an intermodal shift from the heavy stress on roads in the Plan to increased emphasis upon air and water transport.

292. The projects which have been included in the following sections of this Chapter meet the above criteria, and priority will be given to their execution within the remaining years of the Plan period. Priority will also be given to feasibility studies for important projects to be carried out as early as possible within the Second Malaysia Plan period.

293. In the field of policy, Government will give top priority to resolving the management and administrative problems of the Malayan Railway so that this large enterprise can be put on a sound and profitable footing. Government will also review all its activities concerned with road transport, with the aim of adopting a comprehensive road transport policy which will ensure not only the provision of sufficient road transport capacity but also its efficient operation. The entire structure of road user taxes will also be thoroughly reviewed. The objective of the review will be to arrive at a revised structure which is more consistent with Government's economic and social goals, while continuing to make an appropriate contribution to the public finances. Another major policy issue concerns Bumiputra participation in the transport field. Greater emphasis will be placed upon encouraging Bumiputra enterprises with an aggressive programme (perhaps with MARA as the executing agency) to provide training in operating and business skills, managerial and technical advice and credit facilities.

IV.—ROADS

294. In 1966-67 the West Malaysian road network was further improved through widening and strengthening of the highways and extended by about 5% from 9,100 to 9,600 miles. In Sabah, the length of the road network increased by about 14% from 1,400 to 1,600 miles.* Sarawak's road network increased by about 3% to 928 miles. The first half of the Plan period also saw a rapid increase in motor vehicle registrations. At the end of 1965, the total number of vehicles registered in West Malaysia was 395,100 and by October, 1968 the figure reached 539,400, an increase of more than 35%.

* The figures for Sabah are not directly comparable with those of West Malaysia and Sarawak as they include roads of lower standard.

295. Under the Plan the road programme for West Malaysia had been designed to serve a number of objectives, namely to provide population centres in the northeast and in the central west coast areas with a more direct access to important commercial centres, to give access to areas with agricultural potential, to reduce traffic congestion, to provide accessibility to remote villages and to improve service standards of urban roads. In meeting these objectives, the Plan included a general construction programme for West Malaysia under four main headings:

(i) Federal roads: improvements and new roads;
(ii) Development roads: FLDA roads and others;
(iii) State and Municipal roads; and
(iv) Road and traffic surveys.

Road development expenditures for West Malaysia for 1966-68 are summarised in Table 5-2.

TABLE 5-2

WEST MALAYSIA: ROAD DEVELOPMENT EXPENDITURE, 1966-70

($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
Federal Roads:					
Improvements to existing roads ..	64.0	26.4	41.3	76.9	50.5
New communication roads ..	48.0	4.3	9.0	26.0	21.7
New Development Roads:					
FLDA roads..	25.0	9.8	39.2	20.2	10.4
Other	20.0	0.9	45.0	2.0	1.1
Other Roads:					
State and rural roads	63.0	50.0	79.4	83.0	33.0
Municipal roads	23.0	9.8	42.6	27.2	17.4
Road and traffic surveys	1.0	0.4	40.0	1.4	1.0
P.W.D. plant and equipment ..	10.0	4.3	43.0	18.5	14.2
All other expenditure	1.5	—	—	0.8	0.8
Total ..	255.5	105.9	41.4	256.0	150.1

296. Many segments of the road network are now approaching traffic-carrying capacity. On the average, the rate of growth in road traffic ranges between 10 and 15% per annum, which is a rapid increase by any standard. To avoid raising transport costs, thus hindering economic growth, Government will increase substantially its development expenditure during the entire 1969-75 period.

297. Major improvements to Route I, where deferments during 1966-68 have in many cases created bottlenecks, will commence immediately. In addition, a feasibility study to determine the realignment of Route II over the Main Range will be launched in early 1969. Such realignment is mandatory in view of the rapidly increasing volume of timber, palm oil and other products that will be coming out of central Pahang, and both the study and the project will be carried out on an urgent basis.

298. Beginning in early 1969, Government will arrange for preinvestment studies and project designs for two major trunk roads, namely, the East-West Highway, which will be about 185 miles long connecting Kota Bharu to Butterworth and Ipoh via Grik, and the Southern Pahang trunk and feeder roads. The Southern Pahang trunk road, approximately 89 miles long, will be designed to provide access to the Pahang Tenggara region, for which a master plan study will commence in early 1969.

299. The Plan allocated $45 million for the construction of access roads to new development areas. By the end of 1968, about $11 million or 24% was spent, the bulk of which went to FLDA. About 124 miles of new roads were constructed under FLDA administration during the first two years of the Plan. For 1969-70, $10.4 million has been allocated for FLDA roads. The reduction in the overall FLDA road programme to $20.2 million is due to substantial cost reductions from the earlier experience. The road mileage envisioned in the Plan is being constructed, and the FLDA programme is proceeding on schedule.

300. For rural road development a sum of $63 million was originally allocated. The bulk of this expenditure was assigned to new rural roads linking the more important villages that were not yet connected to the road network. By the end of 1968, about 79% of this allocation was expended and for the remaining Plan period a further $33 million will be required. In the first three years from 1965 to 1968 the length of rural roads increased by about 21% to 2,500 miles.

301. About $12.3 million or 43% of the $28.4 million allocation for road development in the Federal Capital of Kuala Lumpur was expended by the end of 1968. This money was used mostly for the construction of Route I and II by-passes and throughways. The introduction of the green-wave system of traffic control in the Federal Capital was one of the projects included under this allocation.

302. In Sarawak, about half the total road mileage is considered as trunk roads, the greater part of which has a gravel surface. The major trunk road connection is between Kuching and Sibu. The remaining portions of Sarawak's road system consist of short segments, a short trunk road in the

vicinity of Bintulu, a section between Miri and Batu Niah, and small segments in the vicinity of Limbang and Lawas. Relatively light traffic volumes are found throughout the network except in Kuching and its vicinity. The number of motor vehicles is expanding rapidly, at the rate of more than 15% per annum.

303. The objectives of the road development programme in Sarawak under the Plan were threefold. Trunk roads would be extended consistent with both development requirements and the coordination of road, river and coastal transport. Feeder roads would be built to meet the requirements of agricultural development and land settlement. Roads would also be given a bituminous surface wherever traffic is sufficiently great to give economic justification to the improvement. Road development expenditures for Sarawak are summarised in Table 5-3.

TABLE 5-3

SARAWAK: ROAD DEVELOPMENT EXPENDITURE, 1966-70
($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
New road construction:					
Trunk roads	35.1	23.2	66.1	34.3	11.1
Feeder roads	26.2	14.1	53.8	19.4	5.3
Major road improvements including bituminous surfacing	11.9	5.6	47.1	15.1	9.5
Road surveys	1.6	0.7	43.8	1.3	0.6
PWD plant and equipment	5.0	0.9	18.0	5.0	4.1
Total ..	79.8	44.5	55.8	75.1	30.6

304. In the light of the MTS findings, the road programme in Sarawak will be reconsidered in consultation with the State Government. Based on an evaluation of the present network and projected population and economic growth, improvement of the Kuching-Sibu trunk road will be accorded high priority in the remainder of the Plan period.

305. The road network of Sabah consists of a west coast road with feeders and loops, a trunk road system east of the Crocker Range and roughly parallel to the west coast following the Pegalan Valley, an east-west road between Sandakan and Telupid together with roads in the Sandakan area, and the road network between Tawau, Semporna, Kunak and Lahad Datu. Most of these roads have either a gravel or earth surface only, and some of them are less than 12 feet wide. The number of motor vehicles has been expanding rapidly.

306. The objective for further road development in Sabah under the Plan, with an allocation of $54 million, was to upgrade the road connections to the principal towns along the west coast. Subsequently this allocation was revised upward to include improvement of west coast roads and upgrading of the Sandakan-Telupid road, estimated to cost a total of $13 million. The Telupid-Ranau road, which is being financed by the Australian Government together with the Federal Government, is now under construction and is scheduled for completion in 1973. Under the Plan, a total of $21.7 million was allocated for work on this road during the 1966-70 period. The revised programme and the progress achieved by the end of 1968 is shown in Table 5-4.

TABLE 5-4

SABAH: ROAD DEVELOPMENT EXPENDITURE, 1966-70

($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
Trunk roads	26.3	23.6	89.7	53.5	29.9
Feeder roads	16.0	12.7	79.4	33.3	20.6
Urban roads	5.4	3.0	55.6	6.3	3.3
Road surveys	1.8	0.1	5.6	1.0	0.9
PWD plant and equipment	4.7	2.2	46.8	5.7	3.5
Total ..	54.2	41.6	76.8	99.8	58.2

307. During the remainder of the Plan period, improvements to west coast roads, Pegalan Valley roads and the roads in the Tawau area will be carried out, involving an expenditure of about $37 million. In addition to these improvements, two feasibility studies will be undertaken, namely, the identification of an adequate road crossing over the Crocker Range and a feasibility study for the Tawau-Lahad Datu road link as part of a palm oil transport study for the region.

V.—RAILWAYS

308. The principal role of the railways is to provide rapid, regular and economical freight services between the main industrial and market centres, particularly where these are separated by great distances. In fact the railway is the most efficient mode of transport where the volume of traffic to be handled between distant centres is substantial. It is also necessary that the plant and equipment which the railway uses is suitable for low unit transport cost operations and that operating and managerial techniques and railway organisation are oriented towards this end.

309. In spite of increasing competition from road transport, the Malayan Railway continues to play a significant role in the transport field. At present, it handles about one-third of total goods traffic measured in net ton-miles. Total goods tonnage excluding iron ore increased in 1965-67 by 13% to 3.2 million tons and total net ton-miles increased by nearly 16% to 583 million. The increase in goods traffic was concentrated in the movement of basic commodities such as petroleum and mineral oils, cement, timber and logs and rubber and rubber-latex. The number of passengers travelling by rail appears to be decreasing steadily due to increased availability of bus service and increased private motor vehicle ownership. Though passenger traffic will continue to decline, it will still be an important factor in railway operations.

310. The overall financial position of the Malayan Railway has shown growing deficits over the last six years. The cumulative overall deficit for the period 1962-67 amounted to $23.9 million, the deficit being $6.9 million in 1966 and $9 million in 1967.

311. The Plan provided a sum of $20 million for the Malayan Railway, which was intended as an interim allocation pending the recommendations of the MTS. This allocation was made for the continuation of the Railway's dieselisation programme, the purchase of additional rolling stock, the completion of the Prai/Butterworth extension, improvements to the right-of-way, the purchase of improved signalling equipment and other minor projects. Table 5-5 indicates details of Railway development expenditure.

TABLE 5-5

MALAYAN RAILWAY DEVELOPMENT EXPENDITURE, 1966-70

($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
Dieselisation	4.0	4.2	105.0	22.5	18.3
Rolling stock	4.5	12.8	284.4	17.9	5.1
Permanent way improvement ..	1.5	8.1	540.0	9.4	1.3
Signalling	2.0	0.6	30.0	0.6	—
Prai/Butterworth extension	3.2	6.4	200.0	6.4	—
Commercial development	3.8	0.6	15.8	0.9	0.3
General development	1.0	2.0	200.0	2.0	—
Total ..	20.0	34.7	173.5	59.7	25.0

312. The MTS gave special attention to rail transport. All aspects of the Malayan Railway were studied in detail, including administration, organisation, management, planning and operation of the Railway. Thus, for the next few years, various aspects of the recommendations will be considered for implementation, especially in regard to Government's declared intention to operate the Railway as a viable and commercially oriented operation and to accelerate its dieselisation programme. In addition to these, an engineering feasibility study will soon be undertaken for a project to improve the Port Dickson-Seremban line of the Railway.

313. The Sabah State Railway will continue in operation, except for the section from Tenom to Melalap, until an all-weather road adequate for goods transport is constructed across the Crocker Range. To enable the Railway to operate efficiently for the next few years additional locomotives will be purchased and the management and supervision of the railway will be improved.

VI.—PORTS AND MARINE SERVICES

314. The development objective in the field of ports is to provide adequate capacity and related facilities at all times to handle the increasing volume of exports and imports at lowest feasible cost. To realise this objective an allocation of $81 million was made under the Plan for port and marine services in West Malaysia.

315. Traffic through West Malaysian ports, excluding iron ore and petroleum products, increased from 6.3 million tons in 1965 to 7.2 million tons in 1967, an average growth of 6.9% per annum. Of the total 1967 general cargo traffic two-thirds were handled by Penang and Port Swettenham. Over 90% of the iron ore traffic in 1967 was handled at Dungun and Rompin and about 78% of the petroleum products was handled at Port Dickson. The role of Port Swettenham as the most important port in West Malaysia is increasing rapidly. With the completion of the Butterworth wharves project, Penang will again assume an increasing importance as a major port in West Malaysia.

316. Under the Plan it was envisaged that six conventional berths of 3,450 feet would be constructed at Butterworth. The plans were subsequently

altered in view of the growing impact of containerisation upon world shipping. Thus, instead of constructing six berths, it was decided that five berths of 2,900 feet would be sufficient. The first phase of this expansion programme, consisting of the construction of three conventional berths with sufficient deck strength to handle containers, was completed in 1968. The work on the additional berths, designed as full container berths, is now in progress and they are expected to be completed in mid-1969.

317. At Port Swettenham, where existing facilities are approaching capacity, the reconstruction of two berths at the old port is now in progress and is expected to be completed in mid-1969. At the North Klang Straits, two additional berths will be constructed beginning early in 1969. These are expected to be operational in 1971. The proposed wharf of 1,800 feet will be of sufficient strength to handle containers and their supplementary equipment.

318. The Marine Department, which controls all minor ports, provides dredging and other related services to enable operations at these ports to proceed satisfactorily. To meet these requirements an allocation of $6 million was made under the Plan.

319. In the next few years, attention will be given to assessing the potential contribution of minor ports to the national economy, particularly in the handling of bulk products such as palm oil and timber at Johore Bahru and cement and flour at Lumut. Further, a study will also be made to determine alternative methods of control of operations of these minor ports.

320. In East Malaysia most of the port facilities lack adequate capacity for the present traffic. As the volume of traffic at the major ports in East Malaysia has been expanding at 8-10% per annum, with both exports and imports contributing to this growth, expansion of all major ports has become an urgent matter. At Kuching, a new wharf will be constructed at Pending Point beginning late in 1969 and is expected to be completed in 1971. A feasibility study, including design, for the Sibu port will commence early in 1969. In Sabah the needs for additional wharf capacity are critical at both Kota Kinabalu and Sandakan and final preinvestment studies including preliminary design will be developed for the latter. For the remainder of the Plan period, as well as after 1970, a major portion of the total expenditure on port development will therefore be concentrated on the provision of new facilities at Kuching, Sibu, Kota Kinabalu and Sandakan.

321. The Plan also envisaged other improvements to ports and marine services in Sabah and Sarawak, for which an allocation of $11.9 million was made in respect of both States. Table 5-6 provides details of development expenditure.

TABLE 5-6

MALAYSIA: PUBLIC DEVELOPMENT EXPENDITURE FOR PORTS AND MARINE SERVICES, 1966-70

($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
West Malaysia:					
Port Swettenham	27.0	6.8	25.2	50.4	43.6
Penang/Butterworth	47.8	49.2	102.9	59.2	10.0
Marine Services	6.0	2.4	40.0	4.6	2.2
Total ..	80.8	58.4	72.3	114.2	55.8
East Malaysia:					
Kuching	21.0	0.1	1.0	5.8	5.7
Sibu		0.1		3.7	3.6
Kota Kinabalu	—	—	—	5.2	5.2
Sandakan	—	—	—	6.2	6.2
Minor Ports	3.1	2.2	71.0	5.1	2.9
Marine Services	8.8	2.6	29.5	5.0	2.4
Total ..	32.9	5.0	15.2	31.0	26.0
Malaysia:					
All Ports	98.9	58.4	59.0	135.6	77.2
Marine Services	14.8	5.0	33.8	9.6	4.6
Total ..	113.7	63.4	55.8	145.2	81.8

322. In late 1968 Government announced the establishment of a national shipping line known as the Malaysian International Shipping Corporation. To start with, two ships which will be obtained as a goodwill payment from Japan are expected to be delivered in early 1971. The national shipping line will provide services between the Far East and Europe.

VII.—CIVIL AVIATION

323. Between 1965 and 1967, the number of persons embarking and disembarking at Malaysian airports increased by 20% annually, as expected under the Plan. The rate of traffic growth is slightly higher in East Malaysia than in West Malaysia. This reflects the fact that air transport in East Malaysia is relatively more important than in West Malaysia, where the other modes of transport are comparatively well-developed.

324. Under the Plan, the bulk of development expenditure for West Malaysia was intended for the purchase of electronic and testing equipment and the remainder for improvements to Penang and Kuala Trengganu airports. The allocation was subsequently revised upward to take into account not only the carry-over and increased costs of Kuala Lumpur International Airport but also the need to provide better safety equipment and build an aircraft hangar at the Kuala Lumpur International Airport. In addition Government also made a substantial equity subscription to the MSA to cover the current expansion programme.

325. In East Malaysia, improvements to runways were made at Bintulu, Miri and Lahad Datu to enable F-27 aircraft services to be operated. At Kota Kinabalu, the Petagas river is now being diverted as a first step towards strengthening and lengthening of the runway.

326. During the remainder of the Plan period, airport facilities will be improved at Penang, Kuala Lumpur, Sandakan and Kota Kinabalu in order to meet traffic demands and to operate the expanding MSA fleet efficiently. Kota Kinabalu runway will accommodate B707s, while the Penang and Kuching runways will accommodate B737s. The latter aircraft are expected to be extended to Sandakan and Sibu before 1975. It is estimated that for the 1969-70 period the investment will be $14.6 million, of which $4.0 million will be the final instalment of additional equity in MSA. Civil aviation expenditure for 1966-70 is summarised in Table 5-7.

327. In the next few years, a Malaysia airports plan, showing the present and future adequacy of the entire airport system, a list of priorities on improvements and an inventory of airports throughout the country, will be developed with the objective of economising development funds. With such an approach, competition among airports for funds can be controlled and systems planning techniques can be used to effect improvements where they will achieve the greatest benefits. Airport master planning studies will be undertaken for major airports in Malaysia.

TABLE 5-7

MALAYSIA: CIVIL AVIATION DEVELOPMENT EXPENDITURE, 1966-70

($ millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
West Malaysia:					
Airports—					
Kuala Lumpur	2.0	5.9	295.0	11.4	5.5
Penang	0.9	1.1	122.2	1.8	0.7
Other	1.9	0.7	36.8	2.5	1.8
Airways	4.2	0.3	7.1	5.3	5.0
Total ..	9.0	8.0	88.9	21.0	13.0
Sabah:					
Airports—					
Kota Kinabalu	1.8	0.7	38.9	2.9	2.2
Sandakan	0.4	0.6	150.0	1.4	0.8
Tawau	0.3	0.8	266.7	0.9	0.1
Other	1.0	1.1	110.0	1.2	0.1
Airways	2.5	1.5	60.0	2.4	0.9
Total ..	6.0	4.8	80.0	8.8	4.1
Sarawak:					
Airports—					
Sibu	0.2	0.1	50.0	0.2	0.1
Miri	2.8	3.2	114.3	3.2	—
Bintulu	1.3	1.3	100.0	1.4	0.1
Other	0.2	—	—	—	—
Airways	2.0	0.6	30.0	2.2	1.6
Total ..	6.5	5.2	80.0	7.0	1.8
Malaysia:					
Airports	12.8	15.5	121.1	26.9	11.4
Airways	8.7	2.5	28.7	9.9	7.4
Equity in MSA	—	23.5	—	27.5	4.0
Total ..	21.5	41.5	193.0	64.3	22.8

CHAPTER VI

Education and Training

I.—OBJECTIVES AND PROGRESS

328. The objectives of the education programmes in the Plan are:

(i) to consolidate further the national education system in order to promote social, cultural and political unity;

(ii) to provide educational facilities, particularly at the secondary level, to meet the needs of the increasing school-age population;

(iii) to improve the quality of education and to spread education opportunities more evenly throughout the country so as to correct imbalances between the urban and rural areas;

(iv) to diversify educational and training facilities by increasing such facilities in vital fields, especially those relating to agricultural and industrial science and technology;

(v) to accelerate teacher training in order to produce the necessary number of qualified and skilled teachers.

329. Education and training were accorded very high priority with an allocation amounting to nearly 10% of total public development expenditure. This was based on the premise that major changes were needed to the educational system in order to reorient output to manpower demand and to rectify the imbalance in educational opportunities between urban and rural areas. It would not be realistic, in the short term, to expect rapid changes in the pattern of educational output, as considerable time-lags are involved before investment in education brings about the necessary structural changes. However, the overall performance during the first three years of the Plan has been satisfactory, although the implementation of certain key programmes has lagged behind on account of teacher, financial and implementation constraints.

330. The period 1966-68 saw further consolidation and reorientation of the education system, especially at the secondary level and above, with the introduction of the comprehensive system of education. Primary level education was further expanded to increase enrolment from 1.2 million in 1965 to 1.4 million in 1968, thus providing places in school for 92% of the children in the primary school-age group. A total of 2,370 classrooms were constructed, including replacement of substandard schools and construction of new classrooms, mainly in the rural areas. The total construction of classrooms exceeds by 10% the annual construction programme of 700 classrooms per year needed to provide for projected enrolment increases.

331. Considerable progress has also been achieved at the secondary level, covering lower secondary, upper secondary (arts, science, technical and vocational) and post-secondary arts and science education. A total of 2,040 classrooms, 265 science laboratories, 251 domestic science laboratories and 108 workshops were constructed, while enrolments expanded by over 63%, as follows:

	1965	*1968*	*% increase*
Lower secondary	231,981	369,653	59.3
Upper secondary	42,022	76,989	83.2
Form Six	3,584	8,082	125.5

332. Further expansion was made to teacher training facilities with the completion of the Malayan Teachers College in Penang and the construction of a Malayan Teachers College in Johore Bahru, the Technical Teachers Training College in Kuala Lumpur and two Day Training Centres in Ipoh and Johore Bahru. During 1966-68, a total of 5,860 primary school teachers and 7,328 secondary school teachers graduated from teacher training colleges. The programme of teacher training has, however, been phased downwards from 1967 with the revision of teacher-pupil ratios in the primary and lower secondary levels of education.

333. Enrolments at the Technical College, Kuala Lumpur, rose from 680 in 1965 to 944 in 1968, an increase of nearly 40%. Teaching facilities at the College were also improved with some extensions. The expansion of the Agricultural College, Serdang, has proceeded very satisfactorily, with 80% of the target already nearing completion. The College was producing a mere 36 diplomates per year in 1965. The four-fold expansion in output envisaged in the Plan will be achieved in 1969.

334. The University of Malaya has also been rapidly developed. Besides the construction of administrative, staff and student residential facilities, a School of Biological Sciences, a Chemical Technology Building and the Geology Department Building were constructed. Extensions were also made to lecture theatre facilities for the science, arts and education students and to the Physics and Chemistry Departments. The planned expansion of student enrolment from 2,225 in 1964 to 7,000 by 1970 is likely to be fully met, the total student population in 1968 being 5,609.

EAST MALAYSIA

335. In East Malaysia the development of the educational system has been singularly impressive since the formation of Malaysia in 1963. In line with Government's objective to improve educational opportunities in East Malaysia, substantial outlays of development expenditure were made in building new schools, extending and improving existing schools, providing more facilities in the science and technical streams and expanding the teacher training programme.

336. The main development during 1966-68 was the expansion of primary and secondary education. In *Sarawak* a sum of $5.2 million was spent as capital grants to Government-aided primary schools and enrolments at this level increased from 119,400 in 1965 to 152,050 in 1968. In line with the Government policy of providing a place in primary school for every child of school age by 1970, school fees were abolished in 1966 and this led to a great increase in enrolments. At the secondary level, a sum of $1.5 million was given as capital grants to aided secondary schools. Further, ten new Government secondary schools were constructed and extensions were made to 29 existing schools. Total enrolments in Government and aided secondary schools increased from 13,000 to 19,000 between 1965-68.

337. A new Teacher Training College at Rejang for training of primary teachers will be completed with assistance from the New Zealand Government. With the establishment of this College, teacher training enrolments in Sarawak are expected to be doubled.

338. In *Sabah*, too, primary and secondary level enrolments expanded. At the primary level, 510 classrooms were constructed providing additional places for 22,950 students in both Government and aided primary schools, an increase of 30% from 1965. At the secondary level, 280 classrooms, 31 science laboratories, 91 teachers quarters and 15 hostels were constructed, enabling the doubling of enrolments at this level from 1965.

339. Expansion to the Sandakan Trade Training Centre has been completed and additional projects in vocational and technical education are scheduled for the remaining years of the Plan. Teacher training facilities, for both primary and secondary levels, have been expanded. Extensions to Kent College, Tuaran, and Gaya College, Kota Kinabalu, have been completed and work is underway for the construction of a new College in Sandakan.

OTHER EDUCATION AND TRAINING PROGRAMMES

340. Significant progress has been made by MARA in accelerating the educational attainment of the indigenous people in order to promote their participation in the technological, commercial and industrial fields. The MARA Institute of Technology (MIT), known previously as MARA College, is undergoing rapid expansion. Student enrolment in July, 1968, numbered 2,500 and is expected to reach 4,500 by 1972. Courses in business and secretarial fields, statistics, economics, technology, banking and industrial management have been introduced to prepare students for external degrees. In addition, pre-university courses in arts and science have been introduced to prepare students for entrance to universities. Plans are now being made to establish a School of Engineering, mainly for technicians, with some being trained for entry to professional courses. A new complex for the Institute, costing $34.5 million, is being developed at Batu Tiga and is due for completion in stages by 1971/72.

341. In the field of *vocational training*, extensions to hostel accommodation and training workshops at the Industrial Training Institute of the Ministry of Labour in Kuala Lumpur have been completed. Between 1965-68 a total of over 540 trainees under the apprenticeship programme and 195 under the accelerated training programme completed their courses. In view of the urgent need for skilled craftsmen for industrial development, further expansion is being planned to the Industrial Training Institute in Kuala Lumpur, with overseas assistance. A UNDP/SF programme for Trade Instructor Training is to be launched in 1969 to cater for the sizeable need for teachers to support vocational training as well as to meet the needs for trade instructors in other Government and quasi-Government agencies. A second Industrial Training Institute costing about $3 million is to be constructed at Butterworth, with assistance from the Government of the Federal Republic of Germany. When completed, these Institutes would train annually about 950 students under the apprenticeship and accelerated industrial training programmes.

342. In the field of *management training*, the National Productivity Centre offers short-term courses in management, managerial accounting, industrial relations, sales, marketing, industrial engineering and in light industry

services. The courses offered at the Centre have had the full participation of the private sector and the number of participants increased from 480 in 1965 to 1,490 in 1968. Parallel to Government's efforts, the Management Institute of Malaysia, established in 1966, conducted a number of training courses and seminars for management personnel in the private sector.

343. As a major user of trained manpower, Government conducts a number of *in-service training programmes* in the field of health, agriculture, veterinary services, forestry, fisheries, telecommunications and broadcasting. These in-service training activities will be further expanded to meet the requirements of the public sector. These programmes provided training for more than 2,500 persons in 1967.

344. The Development Administration Unit of the Prime Minister's Department, in collaboration with the Staff Training Centre, has made a comprehensive study of the training requirements of the public services in West Malaysia, for the purpose of improving the competence and performance of the public services as a whole. This study outlines short-and long-term plans for improving Government training facilities and will form the basis of a systematic and comprehensive post-entry training programme for Government personnel at all levels.

II.—EDUCATIONAL PLANNING

345. Educational policy in Malaysia has undergone many far-reaching changes within the last few years. The introduction of the comprehensive system, the increasing social demand for education, the growing requirement for qualified scientific and technical manpower for accelerated economic and social development and the rising expenditures on education have all imposed considerable strains on the resources of the country.

346. There is the need, therefore, to ensure that while the education system continues to meet the national social and political objectives outlined in the Plan, it will be geared, to a much greater degree than hitherto, towards meeting the pressing needs of the economy for trained manpower at various levels. For this purpose, Government is now reviewing and drawing up long-term plans for restructuring the education system and for making it more efficient through the application of new educational technology as well as improving curriculum and course content.

347. At the primary and lower secondary levels, Government will continue its policy of providing nine years of education to any child who desires it. Enrolments at the primary level in West Malaysia are expected to

reach 1.5 million by 1970, providing education to more than 93% of children in this age group, while enrolments at the lower secondary level will exceed 439,000 by 1970. The review of the education programme will attempt to achieve cost economies at these levels, while at the same time enhancing the quality of education.

348. At the upper secondary, college and university levels, the economic and manpower situation require that greater emphasis be placed on vocational, scientific and technical education rather than on general education. Priority will also be given to achieving a more equitable distribution of educational opportunities at these levels between rural and urban children and between East and West Malaysia.

349. Enrolments at the upper secondary level in West Malaysia are expected to exceed 106,000 by 1970. Steps are already being taken to ensure that science, technical and vocational teaching facilities at this level are expanded. The assistance of the World Bank will be obtained in 1969 to establish six Vocational Schools, three Agricultural Schools and five Technical Schools. A further seven Vocational Schools will be established by converting three Sekolah² Lanjutan Kampong and four former Trade Schools into full Vocational Schools. Two existing Sekolah² Lanjutan Kampong will also be converted into full Agricultural Schools. For East Malaysia World Bank assistance is being obtained to establish three new general secondary schools, to extend two existing schools in Sabah and to expand a Vocational School in Sarawak.

350. The shortage of teachers is the main inhibiting factor in the restructuring of upper secondary education towards greater emphasis on science and technical education. Priority will therefore be given to expanding teacher training facilities for such education. Existing facilities for primary and secondary arts teachers are sufficient to meet the requirements, but it would be difficult to produce science, vocational and technical teachers in the numbers required for the expansion envisaged in these disciplines within a short period. While the problem will be largely resolved in time by the expansion of existing Technical Teacher Training Colleges and the outputs expected from the new Vocational Teacher Training College at Kuantan, recruitment of suitable teachers from overseas will also be needed. A request has also been submitted to UNDP to assist in establishing an Agricultural Teacher Training programme at the Teacher Training College in Johore Bahru, to cater for 60 trainees in 1970, rising to 150 by 1972.

351. Sixth Form enrolments are expected to exceed 11,000 by 1970. Enrolments at this level will be geared to anticipated university enrolments at home and abroad, allowing for predictable attrition. Enrolments in the science and technical streams will be expanded to provide sufficient qualified entrants for the expansion of the scientific and technical faculties in the University.

352. The Technical College and the MARA Institute of Technology are to be expanded to meet the nation's demand for technicians. The Agricultural College at Serdang, too, will be expanded further to produce about 320 graduates annually after 1971. The Polytechnic being built at Ipoh with UNDP/SF assistance will enrol 310 students in 1969 and, when completed, will have a total enrolment of 1,550 by 1973.

353. The Government has decided to proceed expeditiously with the establishment of the University of Penang. For this purpose, the Higher Education Council has established two committees to prepare the constitution for the University and to undertake the preparation of curricula, staff requirements, enrolments and cost estimates.

354. More recently, proposals have been made for the establishment of a National University and the Tunku Abdul Rahman College. Government will give positive support to these two important projects of higher learning. It will, however, ensure that these institutions are integrated with the overall requirements of the education system and meet the essential needs of the nation. Particular attention will be paid to ensuring that these institutions concentrate their efforts on areas of critical manpower demand.

355. Public expenditure on education as a share of national income has risen, in the past decade, from 3.3% to over 6%, a share comparable with many developed countries. This is due, in large part, to the sizeable numbers of young persons in the population and, in part, to the extensive system of education available in the country. While the review and restructuring of the educational programme will ensure that the returns to the investment of scarce financial and physical resources in education are maximised, it is necessary also to effect such economies as are possible within the education system. The rapid expansion of educational facilities in recent years, however essential, has posed difficult choices for Government, particularly in the face of other urgent claims on public funds. Further expansion of educational facilities will be necessary over the next few years. If the economy grows at

a rapid pace, funds for this expansion can be made available without further increases in the share of GNP now devoted to education. If, on the other hand, the economy grows at an overall rate lower than the present 6%, serious adjustments in priorities will need to be made both within the education system itself and as against other programmes of public expenditure.

III.—MACHINERY FOR MANPOWER AND EDUCATIONAL PLANNING

356. There are at present a number of Departments of Government engaged in the overall manpower planning effort. A primary objective of the Plan in this field is the coordination of the work of these various agencies, so that the whole programme is strengthened and given proper direction to enable the fuller utilisation of the human resource potential of the nation.

357. The Manpower Planning Section of the Economic Planning Unit, established to provide the overall leadership and coordination of the manpower planning and operational effort, has already developed close working relationships with the various agencies involved.

358. Particular attention has been paid to the reorganisation and strengthening of the Education Planning and Research Division of the Ministry of Education, in the light of the need to restructure the education system, as already stated. Significant assistance is expected from the Ford Foundation early in 1969, in the form of experts and consultants and training of local staff. A Higher Education Council, as recommended by the Higher Education Planning Committee, has already been established to advise the Minister of Education on the planning and coordination of higher education. An Advisory Committee on Technical and Vocational Education, with representatives from the private sector, has also been set up under the auspices of this Council to review the curricula and standards of the technical and vocational education programme of the Ministry.

359. The establishment of a Department of Employment and Training in the Ministry of Labour with the assistance of ILO has already begun to make some impact on the training and manpower information programmes of the Ministry. It works closely with the Manpower Section of the EPU. The Employment Service of the Ministry has also been reorganised to provide more effective service to employers and job-seekers.

360. Significant attention is also being devoted to the manpower problems of East Malaysia. A manpower survey is being undertaken in both the States. It is expected that the results of the survey will assist considerably in both manpower and educational planning for these States.

TABLE 6-1

MALAYSIA: DEVELOPMENT EXPENDITURE ON EDUCATION AND TRAINING, 1966-70

(S millions)

	Plan target 1966-70	*Estimated expenditure 1966-68*	*Achievement %*	*Revised target 1966-70*	*Balance to complete 1969-70*
Ministry of Education:					
West Malaysia—					
Primary	54.6	25.3	46.3	50.0	24.7
Secondary	152.9	75.5	49.4	139.0	63.5
Vocational Education	35.8	2.4	6.7	14.0	11.6
Technical Education (Post Secondary)	12.0	1.7	14.2	11.9	10.2
Agricultural Education (Post Secondary)	18.8	6.7	35.6	9.0	2.3
University of Malaya	30.0	21.5	71.7	30.0	8.5
Teacher Training	28.5	8.1	28.4	15.0	6.9
Other Programmes	32.4	11.8	36.4	22.6	10.8
Subtotal ...	365.0	153.0	41.9	291.5	138.5
East Malaysia—					
Sabah	27.1	12.3	45.4	27.1	14.8
Sarawak	45.5	19.1	42.0	32.5	13.4
Subtotal ...	72.6	31.4	43.3	59.6	28.2
MARA Institute of Technology (Capital Cost)	1.9	6.5	342.1	34.5	28.0
Industrial Training (Ministry of Labour)	1.3	.2	15.4	5.9	5.7
Total ...	440.8	191.1	43.4	391.5	200.4

CHAPTER VII

Other Programmes in the Public Sector

361. As reviewed in the preceding Chapters, the basic development strategy for the remainder of the Plan period will be to stimulate growth of the economy by extending the resource base. This will be done principally by means of investment in (or encouraging the private sector to invest in) new land development, land improvement and manufacturing. Since such productive investment will lead directly to increased output, incomes and export earnings, it will provide the means by which the economy—including the public sector—can sustain a rapid rate of growth in the future.

362. By and large, the programmes reviewed in this Chapter do not involve directly productive investment. Therefore, in the present situation, these programmes have been accorded a generally lower priority, and a substantial effort has been made to defer investment in these areas while it is being increased more rapidly in the more important activities. There are exceptions but these have been limited in so far as possible to revenue-producing activities and investments in essential infrastructure without which the directly productive investments of both the public and the private sector would be unable to realise their full potential.

I.—COMMUNICATIONS

TELECOMMUNICATIONS AND POSTAL SERVICES

363. These are activities which produce revenue and provide services for which people are willing to pay, and therefore are of relatively high priority. Unfortunately, the difficulties encountered in the attempt to get an expanded foreign assistance programme underway caused delays in implementation, particularly of the *Telecommunications* programme, in 1966 and 1967. To

a certain extent this was the result of unrealised expectations concerning the speed with which aid could be committed and disbursed; to an extent it resulted from the nature of the bilateral credits offered, which made them difficult to use. However, by the second half of 1967, it was possible to begin to utilise bilateral lines of credit effectively. Also, in September, 1968 a World Bank loan in support of the programme for the balance of the Plan period was signed.

364. As a result of these actions, the lags in the Telecommunications programme have begun to be made good in 1968. The aim of the revised programme is to make up these lags during the remaining two years of the Plan period. In addition, the new programme includes high priority projects to eliminate the current backlog of applicants for telephone services by accelerating the extension of the subscribers' network, and to construct an earth satellite ground station at Kuantan to enable the demand for overseas service to be met.

365. In financial terms, it is clear that the lag during the first two years of the Plan period was substantial. Although the pace was accelerated greatly during 1968, the current estimate is that about half the original Plan allocation of $143 million was expended by the end of the year. This leaves almost 60% of the revised programme, totalling $173 million, to be implemented by the end of the Plan period. As an indication of Government's determination in this matter, $54 million has been allocated to telecommunications in the 1969 Development Estimates while appropriate increases have also been made in the Ordinary Estimates to enable this expanded programme to be carried out.

366. The effects of the delays during the early years of the Plan period and the nature of the effort required during the remaining years may be summarised in physical terms for a few of the more important elements of the programme. The effects were greatest in the case of the subscribers' network. Using the installation of telephone stations as the unit of measurement, just under 40,000 (or 8,000 per year) were installed during 1961-65. Still, the waiting list grew from about 1,500 to about 7,000 over the period. In 1966 and 1967 only 4,800 and 6,300 were installed and the backlog grew to approximately 9,000. The backlog would have increased more rapidly were it not for the slower growth in demand for installations associated with the general slow-down in economic activity. The present estimate is that 8,500 stations were installed in 1968, and the intention is to raise this to approximately 13,000 annually in 1969 and 1970. Even with this rate of installation, the expectation is that the backlog will not be entirely eliminated until about 1973.

367. In the case of main automatic exchanges, the comparison with the previous Plan period is somewhat more favourable. During the 1961-65 period 18,420 lines were installed, while the Plan calls for 61,600. Of the latter figures, just 20,650 (or one-third) were installed by the end of 1968. Thus, in physical terms too, a very substantial effort will be required during 1969-70. The present estimate is that 57,000 can be installed by the end of 1970. In the case of expenditure on the trunk and junction network, the lag has been somewhat worse. The Plan target calls for the addition of 93,137 circuit miles on 2,351 circuits as against 50,606 and 523, respectively, during 1961-65. By the end of 1968, however, only 30% of the objective was realised, and it will require a very concerted effort to achieve the desired progress by the end of 1970.

368. In East Malaysia, the telecommunications development programme has kept pace during 1966-68. As in West Malaysia, the exception was the subscribers' network. Progress on this item equalled less than 25% of the Plan target and full implementation by the end of 1970 will be difficult to achieve.

369. In the case of *Postal Services,* about 25% of the Plan allocation has been expended by the end of 1968. This slow progress has been due principally to the financial problem of the public sector, aggravated by difficulties in implementation. In particular, severe problems in finding a site for the new General Post Office in the Federal Capital have caused a substantial delay to the largest element in the programme. A new General Post Office has become a high-priority project as congestion at the present location has created an increasingly severe bottleneck to effective service.

370. Given the very substantial progress during 1961-65, some measure of delay and underfulfilment during the early years of the Plan could be regarded as tolerable. However, during the Mid-Term Review it became evident that severe lags had developed in the investment programme and that this was having undesirable effects upon the efficiency of services. As a result, the Plan objective has been increased slightly, and high priority has been given to achieving the revised objective. This appears possible for all elements of the programme other than the Kuala Lumpur General Post Office.

371. In both Telecommunications and Postal Services the policy for the remainder of the Plan period will be to make funds available for all projects approved during the Review, with the objective of making good during 1969 and 1970 the lags of 1966 through 1968. Sufficient personnel and funds will be allocated in the Ordinary Budget to permit the potential returns on investment in these projects to be realised.

372. The expansion of radio and television confers special benefits of a nation-building character. At the same time, it must be realised that this is a very costly service for which only a portion of the total costs (capital and recurrent) is being recouped by direct and indirect charges. As investments in this area are not directly productive in strictly economic terms, information and broadcasting services will continue to expand, but at a rate which does not cause serious diversion of resources from more directly productive economic programmes and projects.

373. As parts of the programme were at an advanced planning stage at the outset of the Plan period, as execution has been relatively efficient and as difficulties in arranging foreign assistance have produced only moderate delays, progress during 1966-68 has been good: well over half the programme was implemented by the end of 1968. Furthermore, the extent of commitments—construction in progress and equipment on order—is such that the expenditure level will be high in 1969 as well, and there should be little problem in executing the full Plan programme before the end of 1970.

374. The future programme for information and broadcasting will place less emphasis than in the past upon extending the network and considerably more emphasis upon improved programming. A special effort will be made to develop programmes that will contribute directly to the development effort—such as programmes for adult education, agricultural extensions to the broadcasting network, it will be accorded higher priority. As this type of expenditure will be considerably more productive than further extensions to the broadcasting network, it will be accorded higher priority.

II.—UTILITIES

ELECTRICITY

375. The National Electricity Board (NEB) is nearing the end of a major expansionary phase. In recent years (most notably 1966-68) the capital investment programme has been unusually large. This has been the result of simultaneous implementation of a major hydro-electric scheme, a major extension of the distribution network and a normal programme for increasing thermal capacity.

376. In the absence of any significant constraints—implementing capacity being adequate and financing having been arranged with the World Bank prior to commencement of the Plan period—this programme has been carried out largely on schedule during 1966-68. This effort is recorded in financial terms in Table 7-1. In physical terms, this programme will result in the additions to capacity shown in Table 7-2.

TABLE 7-1

NATIONAL ELECTRICITY BOARD TOTAL DEVELOPMENT PROGRAMME, 1966-70

($ millions)

Item	1966	1967	1968	1969	1970
Total Programme	114.5	111.0	130.7	94.0	84.3
Sources of Finance					
Federal Subscription—					
Equity	35.0	30.4	15.0	—	—
Rural electrification	1.7	2.3	2.5	3.5	4.0
IBRD Loans	48.8	55.0	68.0	43.8	34.1
NEB Resources	29.0	23.3	45.2	46.7	46.2

377. As a result of the above programme, 420 MW will have been added to the NEB system during the Plan—more than doubling the total generating capacity of the system. With this unusually large addition, capacity is being built up substantially in advance of demand during this period. While there have been good reasons for this, it is unlikely that such a build-up will have to be repeated within the next seven years or so. Thus, even with another major hydro-electric scheme (Temenggor in Upper Perak) scheduled for construction during 1970-74, annual investment is expected to continue at about the 1970 level, or substantially below the levels of 1966-68, throughout the Second Malaysia Plan period.

TABLE 7-2

NATIONAL ELECTRICITY BOARD ADDITIONS TO GENERATING CAPACITY, 1966-70

Year	Megawatts	Power Station	Type
1967 ...	60 ...	Prai	Thermal
1968 ...	30 ...	Sultan Ismail	„
	150 ...	Batang Padang	Hydro
1969 ...	120 ...	Port Dickson	Thermal
1970 ...	30 ...	Sultan Ismail	„
	30 ...	Prai	„
Total ...	420		

378. This trend is a welcome development from the public finance standpoint. The NEB, which required subscriptions totalling $80.4 million from the Federal Government during 1966-68, will require no such infusions of new capital during 1969-75. With the exception of Federal and State contributions to the rural electrification programme, the NEB will be able to finance its programme over that period entirely from internal sources and foreign loans.

379. It is possible that a faster rate of development than that currently foreseen will require a faster rate of investment by the NEB, and care must be taken not to err in the direction of building up capacity too slowly—to the extent that the supply of electricity becomes a constraint upon development. In the present circumstances, however, this possibility appears quite remote.

380. In East Malaysia, difficulties in arranging foreign financing for the Sarawak Electricity Supply Corporation (SESCO) and the Sabah Electricity Board (SEB) caused some delays during 1966 and 1967. These delays, however, were not serious, and by 1968 the financing difficulties had been resolved and the programmes are now generally on schedule. Finance, however, will remain an important problem for the future, for the only sources that have proved "tappable" to date are bilateral sources—and these are both uncertain and high cost. Thus, while SESCO has utilised such finance and accepted the high costs, the SEB has received funds from the State—avoiding the high costs, but also foregoing the loans. Neither alternative offers a satisfactory long-term solution.

381. For the immediate future, the major role of Government will be to assist the electric utilities, particularly the SEB and the SESCO, in obtaining assured sources of finance—World Bank or Asian Development Bank (ADB)—for their programmes; improving project preparation and evaluation; and obtaining a better appreciation concerning the economic and financial impact of these utilities. In particular, Government will examine the implications of electricity tariff structures for industrial activity, general development, users' interests and the overall public finance situation.

WATER SUPPLY

382. Programmes in these areas lagged during 1966-68. In West Malaysia and Sarawak it is estimated that 26% of the original Federal loan programme for water supplies was implemented by the end of 1968. In Sabah almost 90% of the original programme for the Plan involved a major project to develop a new supply for the Sandakan area. Subsequent investigations established that much cheaper groundwater sources could be

exploited to provide sufficient water for the area in the next few years. As a result, a comparison of performance with the original Plan objective would not be appropriate.

383. In large measure, this performance to date has stemmed from difficulties encountered in the effort to utilise foreign assistance to finance major portions of the programme. A major objective of the Plan was, and still is, to increase substantially the flow of foreign finance in support of the development programme. In the case of project financing—which applies to water supply projects among others—it was known that this would require substantial improvements and refinements to project preparation and planning. This was necessary in order to meet the requirements of foreign lenders as well as being desirable in its own right.

384. What was not appreciated fully at the outset of the Plan period was the time-consuming nature of this process. Thus, while it has been possible to conduct more detailed analysis of many water supply projects, this has led to substantial delays—both at the stage of arranging technical assistance for conducting the analysis and at the loan negotiation stage. In the process it has been learned that, in most instances, water supply projects do not constitute a very good vehicle for the absorption of project aid. The major problem stems from the small foreign exchange content—and the even smaller direct foreign exchange component—of water supply projects.

385. This problem has operated differently in the case of different types of projects. For major projects, such as Kuala Lumpur and Penang, it has been possible to negotiate for loans from the IBRD and the ADB, respectively. These projects were suitably prepared and analysed and were large enough to include a sizeable component of direct plus indirect foreign expenditure to be covered by such a loan. The time consumed in preparation and negotiations was substantial; however, this was worthwhile in terms of the results, and it is felt that as experience is gained this time can be reduced for future projects.

386. In the case of smaller projects—e.g., Sungei Patani, Kota Bharu, Dungun and Kemaman—the experience to date has been less gratifying. Institutions such as the IBRD and the ADB are not prepared to deal with such small projects; thus, if they are to be financed at all, it must be through bilateral assistance programmes. This severely restricts the size of the loan that can be arranged, because financial assistance under practically all of the bilateral assistance programmes is now tied to purchases made in the lending country. Thus, as significant financial assistance has been ruled out in these instances, the only foreign resources available are technical assistance for the preparation and evaluation of the projects.

387. Looking to the future, the policy of Government will be to prepare only the very large water supply projects for loans from the IBRD and the ADB. For smaller water supply projects and sewerage projects, all of which have only a very small foreign exchange component, foreign assistance will be generally eschewed. Here the objective will be to improve project preparation and analysis for all projects, using largely domestic resources. The PWD will undertake the necessary preparation and analysis and, where it lacks the capacity to do so, will employ domestic or foreign consultants. Financing will be principally from domestic resources; however, where significant foreign exchange items exist, the attempt will be made to obtain credit terms during the tendering process.

388. In the course of the Mid-Term Review, it was decided that a comprehensive appraisal of the programme for water supplies would be carried out. The focus was upon evaluating all projects, using a consistent set of assumptions as to population growth and consumption per head, so that they could be ranked in order of priority. In addition, Government decided to review and revise the arrangements governing financial support of projects so that execution in the future will follow more closely the economic priorities established as a result of the above exercise.

389. While this work is well underway, it has not been possible to complete it as yet. Therefore, the remaining project list cannot be taken as firm commitments for the balance of the Plan period. Rather it is a list of approved projects for eventual future implementation. Present expectations are that about 43% of the revised Federal loan programme will be expended by 1969, and that this will approach 70% by the end of 1970 as substantial progress is made on the Kuala Lumpur and Penang projects.

390. For the more distant future, the major concerns will be to continue the advanced preparation and planning of major projects; to improve project evaluation including the development of information concerning the impact of treated water supplies on rural health and productivity; to review the policies governing both the division of financial responsibilities as between the Federal and State Governments and the extension of treated water supplies to rural areas as a social service requiring a measure of subsidy.

III.—HEALTH AND SOCIAL SERVICES

HEALTH

391. In the field of health, Malaysia had already reached a relatively high level of service by 1965. This was recognised in the Plan, which stressed the construction of new hospitals—just as the 1961-65 Plan had emphasised the extension of health services to the rural areas.

392. Hospital construction, which accounts for some two-thirds of the total Plan allocation for health, has proceeded approximately on schedule. In financial terms, approximately three-quarters of the Plan allocation was spent by the end of 1968. With completion of the 756-bed University Teaching Hospital and the 720-bed General Hospital at Seremban during 1968, some 3,200 hospital beds were added during the first three years of the Plan. This has produced a slight increase in the bed to population ratio. With the completion of these two hospitals, expenditure in this area will drop off as the new General Hospital at Kuching is completed in 1969 and the new General Hospital at Kuala Lumpur remains the only major project in the Plan on which work will continue through 1970. The latter project, which is being carried out in three phases during 1967-72, is proceeding approximately on schedule, and the first phase was completed during 1968. With good progress underway in the hospital construction programme, increased attention is being directed to such other important fields as training, rural health services and hospital improvements. The allocations to these areas were increased in 1968 and have been increased still further in the Budget for 1969.

393. In approaching the Mid-Term Review of the Plan it had to be recognised that, despite the importance of extending and improving health facilities and health programmes throughout the country—and in the rural areas in particular—expenditure on health does not yield an immediate economic return on investment. It is, however, unquestioned that most health programmes do contribute to economic development by increasing the productivity of the population; moreover, some health programmes do this to an important degree. As a group, however, they are not of the highest priority although there are some very important items within the sectoral programme. In these circumstances, some reductions from the original Plan objectives for health were effected in the lowest priority areas.

394. In addition many health facilities were built up significantly in advance of the availability of trained staff needed to operate them at full productivity—and, while the situation had improved during 1966-68, some staffing problems persisted. Thus, it appeared possible—looking forward to 1969-70—to rephase programmes where implementing capacity and staffing difficulties would not permit new facilities developed to be used to full advantage. Keeping these considerations in mind, it was possible to reduce the overall Plan objective for development expenditure on health by just over $10 million, or about 6%. Given the progress to date and the nature of the revisions, it should be possible to implement the entire new programme.

395. Beginning also in 1969, and looking beyond 1970 into the Second Malaysia Plan period, Government will place strong emphasis on the following matters in planning the development of the health sector: planning more effectively to meet staffing requirements; developing more extensive training programmes; achieving greater economy on capital expenditure through the adoption of a programme with clearly defined priorities. In addition, Government will study the impact of improved health upon productivity and will take steps to make health planning an integral part of national and regional planning. Family planning is an area in which this is already being done.

FAMILY PLANNING

396. The Plan stressed the importance of an effective family planning effort for the successful economic and social development of the country. A slower rate of population growth will enable more resources to be devoted to investment in development, thereby increasing the rate of growth of output and income *per capita*.

397. With these considerations in mind, the longer term Perspective Plan looked for the gradual reduction of the rate of population growth from about 3% per annum currently to 2% by 1985. Towards this end Government brought into operation the National Family Planning Act in June, 1966 and established the National Family Planning Board of Malaysia as an autonomous body to administer and coordinate family planning programmes throughout the country.

398. The Board commenced clinical operations in May, 1967, and has thus far concentrated its efforts upon disseminating information about family planning, distributing contraceptive materials (oral pills in over 90% of cases) to interested "acceptors" and training personnel for work at all levels in both the public and private sector family planning programmes. The Board has been establishing its own clinics and substations at a rapid rate. By November, 1968, 57 clinics and 155 substations had been established; however, a large portion of the programme is, and will continue to be, carried out through voluntary Family Planning Associations (158 clinics), rubber estates (146 clinics, up from 85 at the end of 1967) and individual doctors.

399. The programme is receiving assistance from the Swedish International Development Authority, the Ford Foundation and the University of Michigan Center for Population Planning. Government's own allocation has increased from $900,000 in 1967 to $1,600,000 in 1968 and $1,750,000 in 1969. To date the programme has been operating only in West Malaysia; it is gradually being extended to the rural areas. The Board's programme

envisages the extension of services to all regions of West Malaysia by the end of 1969 and sets as its target 407,700 contraceptive acceptors (or about 34% of the relevant population) by the end of 1971. This target and the achievements to-date are set out in Table 7-3.

TABLE 7-3

FAMILY PLANNING PROGRESS AND TARGETS, 1967-71

Year	Phase	Target Proportion (a) of married women of child-bearing age to become acceptors	Target Number of New Annual Acceptors		Achievement	% of Target (d) (Cat. II)
			Category I 15-44	Category II 15-49		
1967	I	3%	29,000	31,500	20,726 (b)	99
1968	II	5%	49,000	54,100	62,757 (c)	139
1969	III	8%	82,100	89,100	—	—
1970	IV	10%	105,700	114,800	—	—
1971	—	10%	108,900	118,200	—	—
	Total	34%	374,700	407,700	83,483	—

(a) Per cent of "potential acceptors" in areas being provided with family planning services: this area expands gradually from the major urban areas until the entire population of West Malaysia is reached in 1970.
(b) May—December.
(c) January—October.
(d) Using annual rate.

400. The national family planning programme has made a sound and encouraging start. In 1969-70, the main emphasis will be upon extending the programme's geographical coverage and meeting the targets shown in Table 7-3. Looking beyond 1970, efforts will be made to increase the rate of adoption of family planning in the rural areas.

OTHER SOCIAL SERVICES

401. This category covers a considerable range of programmes—including social welfare; culture, youth and sports; orang asli; prisons and large portions of the development programmes of the States and the municipalities.

402. By and large, these programmes are among the lower priority areas for development, where it is possible to delay programmes in periods of financial stringency. This has been reflected in the performance to-date (1966-68)—which has been slow in almost all areas. It has also been reflected in the Review of the Plan, during which less essential programmes and projects have been generally reduced or deferred.

IV.—HOUSING

403. The housing programme, which had not been worked out in detail at the time of writing the Plan, got off to a slow start during 1966-67. However, considerable progress has been made during 1968 and this is expected to continue during 1969-70.

404. In financial terms, the Plan called for the expenditure of $188 million during the five-year period. By 1967 only $51 million, or about 27%, had been expended, mostly for constructing low-cost housing. During 1968, the estimated cumulative expenditure rose to $104 million, or about 55% of the Plan allocation. It is expected that this more rapid pace will continue and that approximately three-quarters of the Plan allocation would have been expended by the end of 1969 and the balance during 1970.

405. In physical terms, it is estimated that 2,870 low-cost housing units were completed during 1966-67. A total of about 10,000 units was completed during 1968 and the annual total is expected to remain at this level during 1969-70. Thus, the Plan objective of 30-35,000 units will have been achieved by the end of the period.

406. Given the large unfulfilled demands for such housing and the slow start made by 1967, the Ministry of Local Government and Housing launched a "crash programme" in 1968. Such a programme was appropriate in the circumstances but it offers only short and intermediate-term solutions. Looking beyond 1970, it is clear that the housing programme will have to be based on a long-range plan. Towards this end a Housing Authority will be established. This Authority will be charged with assessing housing demand (locations, number, size of unit, appropriate price or rental) and determining the economically most desirable type of unit and methods of construction, under Malaysian conditions.

407. While Government is committed to making a substantial effort in the field of low-cost housing, it will not be in a position to continue assuming the overwhelming portion of the financial burden of such a programme. Efforts will continue to be made to mobilise additional private financial resources both domestically and abroad.

V.—GENERAL ADMINISTRATION

408. The term "general administration" covers a heterogeneous group of programmes. These range from very high priority programmes to improve the quality and increase the efficiency of administration to a number of programmes of considerably lower priority such as government buildings. Progress during 1966-68 has tended to follow these priorities.

409. In conducting the Mid-Term Review great emphasis was placed upon the importance of administrative capacity, and the likelihood that it is the scarcest resource and therefore the most important constraint to more rapid development in Malaysia at present. Thus, highest priority was given to programmes directed toward expanding this capacity. In areas of lower priority where it was possible to achieve economies or defer projects the

ceilings were reduced. These included, with a few exceptions, the projects/programmes in the following areas: chemistry, printing, meteorological services, justice, local government, immigration, government buildings, government housing and foreign affairs. The revised programme is given in Table 8-1.

VI.—DEFENCE AND INTERNAL SECURITY

410. In the Mid-Term Review the allocations for defence and internal security have been adjusted downward to reflect the slow rate of progress on construction programmes during 1966-68. Out of the revised Plan allocation of $691 million, it is estimated that $412 million or 60% was expended by 1968.

411. A comprehensive review of defence and internal security requirements for 1969-70 and beyond is currently being undertaken in the light of the planned withdrawal of British military forces by 1971.

CHAPTER VIII

Summary of the Public Sector Programme

412. Given the recent stagnation of export earnings and the associated aggravation of the public sector finance problem, the emphasis in the near term must be upon expanding the resource base of the economy and increasing output. This means restructuring the public sector programme even more strongly in favour of directly productive investment and, at the same time, creating an even more favourable climate for private sector investment. The implications of this strategy for the public sector programme are that Government will place emphasis upon the development of agriculture, industry and essential infrastructure and skills.

I.—AGRICULTURE AND LAND DEVELOPMENT

413. Reflecting the importance of agriculture in the economy of Malaysia, Government now plays an active role in agricultural development. Government is a supplier of infrastructure through its drainage and irrigation schemes and of direct investment through the FLDA and other land development programmes and the provision of processing facilities. It is also the provider of agricultural skills through its educational efforts at the school, college and university levels. Furthermore, Government assists private sector development through its research and extension efforts and a system of incentives including replanting subsidies, subsidised inputs and marketing assistance.

414. While it has not always been possible to move as fast on all fronts as would be desirable, the record of progress has been impressive. The FLDA and DID operate proven programmes which are highly productive. Thus they will be provided with adequate financial resources to implement projects as fast as physical capacity permits for at least the next few years. In the case of FLDA, it is clear that its present implementing capacity is

not sufficient to execute the even larger programme that is desirable. In these circumstances, Government is striving to increase public sector activity and encourage increased private sector activity by means of supplementary programmes of land development. These programmes, e.g., youth land settlement schemes, will concentrate upon producing results sooner while using smaller inputs of scarce capital and human skills. In regard to the FLDA and DID programmes themselves, Government is continuing to explore means by which the productivity of these investments can be further increased.

415. In addition, Government will intensify its efforts in agricultural education, research and extension. Examples of important steps to be taken early in 1969 are a World Bank loan for education—which will finance, among other things, three agricultural schools—and legislation to establish the Malaysian Agricultural Research and Development Institute. Furthermore, greater encouragement will be given to private sector activity during the remainder of the Plan. Important programmes such as the rubber replanting scheme and the provision of processing facilities for smallholders will receive additional resources and new projects will be launched. An example of this will be the early establishment of a national agricultural credit institution.

II.—INDUSTRIAL DEVELOPMENT

416. The main thrust of Government's effort in the industrial sector is to evolve an effective set of incentives and an efficient system by which they will be administered. Policies, most notably tariff policy, to encourage industrial and agricultural development will at all times be adapted to meet the changing needs and potentials of the economy. The institutions responsible for designing and implementing these policies will be rationalised, further strengthened and rendered more effective by better management and additional trained staff. The efforts of these institutions, particularly in the industrial field, will be more effectively coordinated so that investors will be better served.

417. Government policy has always been to assign the leading role in industrial development to the private sector. Public sector direct investment in industry has never been large by any comparative standard, although infrastructure investment in support of industry has been substantial. In the period just ahead, however, two main areas of such public investment will require reduced amounts of resources. The National Electricity Board is now completing the last stages of a huge capital equipment programme and is unlikely to return to the annual rates of expenditure of the past three

to four years until well into the seventies. In addition, there has been substantial investment in industrial estates in recent years. No new industrial estates are planned for 1969-70, but if strong economic justification is established the existing estates will be expanded or new ones created.

III.—ESSENTIAL INFRASTRUCTURE

418. The four major types of infrastructure which are of importance to industrial and agricultural development are electric power, water supplies, communications and transport. While a major effort to develop electricity generating capacity and distribution is just being completed, progress in the other three areas has been relatively slow. As a result, there has been a fundamental change in the situation that existed at the beginning of the Plan period. Excess capacity which existed in certain areas in 1965 no longer exists. Government has recently taken steps to increase capacity in these areas, particularly in the case of water supplies for Kuala Lumpur, Penang and Malacca, and the telecommunications network.

419. In the field of transport, expenditure was held back during the past three years pending the findings of the MTS. The MTS Draft Report, which is now being considered by Government, advises that any excess capacity created in the transport system during the 1961-65 period is fast disappearing as a result of increased traffic volume and the lower rate of expenditure during 1966-68. A major investment programme for the transport sector as a whole has therefore been recommended for the period 1969-75. While an overall programme covering all modes of transport is being considered, certain specific projects of highest priority, namely, access to land development areas, development of major ports, improvements and additions to the road network, and renewal of rolling stock and improved management for the rail network, have already been identified by Government for immediate implementation.

IV.—EDUCATION AND TRAINING

420. While the proposed capital programme in the field of education and training remains sizeable, it has become necessary to review existing policies and make major changes in the education system to gear educational output to the manpower needs of the country. Accordingly, resolute action is being initiated to switch the general emphasis from arts to science; schools that have a technical or vocational emphasis will be given priority in the building programme. In this context, increased support will be extended to the MARA Institute of Technology and to agricultural, vocational and technical schools. Government will also encourage and assist private industry to play

an increasing role in the field of industrial and management training. In order to accelerate and improve planning for these and other advances in education and training programmes, Government is now strengthening the planning and coordination functions of the Educational Planning and Research Division of the Ministry of Education.

V.—OTHER SECTORS

421. In order to concentrate development efforts in the next few years in the areas of agriculture, industry, basic economic infrastructure, education and training, where further investment will expand the resource base of the economy and lead directly to increased production, restraint will be imposed in other areas where less productive projects will be deferred or rephased. This will imply a slower growth and extension of social services. The reason and justification for such restraint is that Government is determined to take the steps necessary to create the economic foundation on which a meaningful programme for the economic well-being of all Malaysians can be based.

VI.—BENEFITS AND COSTS OF PUBLIC SECTOR PROGRAMMES

422. In reviewing and revising the Plan targets for 1969-70, Government has taken account of the need to contain as far as possible the growing burden of development programmes on the Federal Budget. The approaches adopted will include measures to cut back expenditures on programmes of lower priority; to make development projects self-financing when appropriate, and to encourage State Governments, public authorities and the private sector to participate as fully as possible in financing development projects. As a result of the revisions made in the Plan and the experience gained during the last few years, the development projects now included for the rest of the Plan period represent a public investment programme which will bring maximum returns to the country. Analyses and feasibility studies carried out recently by or for the EPU show that the rate of return to the national economy ranges from more than 10% in FLDA rubber schemes and 12-20% in the case of irrigation projects for double-cropping padi, FLDA oil palm schemes and new road projects connected with area development to well above 50% in the case of crumb rubber processing for smallholders and traffic interchanges on congested routes.

423. While these are impressive returns, there is still room for improvement in all areas. For example, the yields on FLDA schemes can be improved by assisting settlers to undertake market gardening and breeding

of poultry and livestock and by undertaking a system of intercropping in the early years of each scheme. Similarly, the returns on irrigation schemes can be increased by providing the field channels from the outset and by intensifying extension services immediately following completion of the civil works, so that double-cropping may be introduced more rapidly and effectively.

424. To achieve these higher yields and benefit-cost ratios, improved administration is required at all levels, including better planning and organisation for implementation. To these ends, Government is strengthening the EPU, introducing programme and performance budgeting and establishing research and planning units in certain major Ministries. Government has also adopted an ambitious training programme for officers and staff at all levels of the public services. Chapter 9 reviews and outlines Government's plans for meeting these urgent needs.

TABLE 8-1

FEDERAL DEVELOPMENT EXPENDITURE, 1966-1970*

($ millions)

	Head	*Plan Allocation 1966-70*	*Estimated Expenditure 1966-68*	*Achievement %*	*Revised Allocation 1966-70*	*Balance to Complete 1969-70*
100	Prime Minister	4.453	2.990	67.1	24.382	21.392
101	Justice	5.699	1.742	30.6	3.929	2.187
102	Statistics	6.000	1.838	30.6	3.852	2.014
103	Chemistry	.720	.321	44.6	.733	.412
104	Printing	1.600	.868	54.3	1.600	.732
105	Prisons	20.710	5.458	26.4	17.527	12.069
106	Radio	48.300	23.652	49.0	50.636	26.984
107	Television	2.758	.698	25.3	1.393	.695
108	Information	2.017	1.596	79.1	2.561	.965
109	Min. of Local Govt. and Housing	2.100	2.219	105.7	6.781	4.562
110	Housing	158.000	88.819	56.2	157.523	68.704
111	Malacca Municipality	1.400	—	—	.600	.600
112	City Council, Penang	2.500	1.500	60.0	2.500	1.000
113	Ibu Kota K. Lumpur	15.000	2.600	17.3	11.790	9.190
114	Ipoh Municipality	12.400	.200	1.6	4.820	4.620
116	Immigration	—	.772	—	1.681	.909
118	Min. of Culture, Youth and Sports	13.031	3.114	23.9	6.520	3.406
119	Treasury	—	2.212	—	2.212	—
120	Customs and Excise	5.212	2.647	50.8	5.661	3.014
121	Commerce and Industry	336.534	228.606	67.9	350.620	122.014
122	Education	437.658	168.840	38.6	350.903	182.063
123	Health	188.980	102.605	54.3	166.631	64.026
124	Labour	1.950	.409	21.0	6.918	6.509
125	Social Welfare	9.796	1.807	18.4	7.000	5.193

	Head	Plan Allocation 1966-70	Estimated Expenditure 1966-68	Achievement %	Revised Allocation 1966-70	Balance to Complete 1969-70
126	Min. of National and Rural Development	407.500	210.777	51.7	480.463	269.686
127	Min. of Lands and Mines	35.935	8.933	24.9	23.943	15.010
128	Geological Survey	.839	.385	45.9	.794	.409
129	Mines	.500	—	—	—	—
130	Survey	6.481	2.346	36.2	4.099	1.753
131	Orang Asli	3.840	2.839	73.9	4.839	2.000
132	Forestry	5.979	2.920	48.8	9.280	6.360
133	Agriculture	122.813	40.361	32.9	98.263	57.902
134	Co-operative Development	1.500	7.941	529.4	11.000	3.059
135	Drainage and Irrigation	322.799	174.445	54.0	326.060	151.615
136	Fisheries	21.000	3.933	18.7	18.228	14.295
137	Veterinary	27.658	8.147	29.5	24.298	16.151
138	Roads and Bridges	368.700	153.815	41.7	340.787	186.972
139	Water Supplies	181.825	47.159	25.9	149.072	101.913
140	Government Buildings	36.322	14.175	39.0	31.813	17.638
141	Public Works Plant	19.750	6.061	30.7	25.769	19.708
142	Postal Services	9.600	2.396	25.0	9.652	7.256
143	Government Housing	15.250	4.088	26.8	6.533	2.445
144	Telecommunications	142.510	67.377	47.3	173.107	105.730
145	Malayan Railways	20.300	7.695	37.9	30.070	22.375
146	Ports	92.000	43.506	47.3	103.355	59.849
147	Civil Aviation	21.543	40.071	186.0	64.074	24.003
148	Meteorological Services	.271	.546	201.5	1.631	1.085
149	Marine	15.160	5.002	33.0	9.600	4.598
150	Foreign Affairs	12.465	3.017	24.2	11.887	8.870
	Sub-total ..	3,169.358	1,503.448	47.4	3,147.390	1,643.942
115	Police	139.000	65.497	47.1	135.500	70.003
117	Defence	600.000	337.432	56.2	555.338	217.906
	Sub-total ..	739.000	402.929	54.5	690.838	287.909
	TOTAL ..	3,908.358	1,906.377	48.8	3,838.228	1,931.851

* Figures in Estimated Expenditure and Balance to Complete columns do not necessarily agree with those in Table 1-2 and other previous tables. This table assumes actual Federal Development Expenditure in 1968 to have been $630 million, whereas Table 1-2 is based on an assumption of $703 million. Allocation of probable shortfalls to sectors was impossible at the time of this Review.

CHAPTER IX

Administrative Machinery for Planning and Implementation

425. Malaysia's development effort and economic performance over the past three years have witnessed significant innovations and improvements in the machinery for planning and implementation.

426. Measures to strengthen administration and ensure efficient plan implementation have been initiated at all levels of Government. But practical problems of implementation are still challenging and formidable. They underline the need for greater dedicated effort and sustained action towards better performance, better and more intensive training of personnel, systematic reporting and evaluation. The need for greater initiative and coordination between different Ministries and Departments has been a matter of constant concern not only at the Federal but also the State and district levels.

427. With the substantial increases in the size, scope and complexity of development programmes in recent years, the responsibilities of Ministries, Departments and other executive agencies have grown considerably. Current problems, such as the decline in export commodity prices, the rise in recurrent expenditure and the growing gap between revenue and expenditure, have also enhanced the difficulties under which the administrative and planning machinery has had to function. This Chapter reviews some of the administrative achievements made in plan implementation and highlights those areas which need further improvement.

I.—DEVELOPMENT ADMINISTRATION UNIT AND ADMINISTRATIVE IMPROVEMENT

428. The establishment of the Development Administration Unit (DAU) in November, 1966 represented a major commitment of Government to the improvement of administration. The DAU has begun to direct its attention

to critical areas where changes are needed in the public administration system to enable it to be more efficient, productive and development-oriented. Among these systems changes are programme and performance budgeting, staff training and career development, land administration and management analysis. These major reforms will affect not only structures and procedures but, more importantly, the attitudes of administrators and the manner in which they discharge their responsibilities. The DAU has, at the same time, been engaged in numerous service activities to assist Departments to increase their effectiveness, eliminate bottlenecks, reduce delays and improve the efficiency of operations. This combination of implementing long-run systems changes and solving immediate administrative problems will continue to receive the full attention and concentrated effort of Government and, in particular, the DAU.

429. Meanwhile, organisational changes in Ministries, Departments and State administrations have been introduced with a view to promoting greater national integration and administrative and fiscal cohesion between the Federal and State Governments.

430. In recent years, State Governments have established a number of statutory bodies (e.g., State Development Corporations) to spearhead the implementation of major development programmes in such fields as mining, forestry and oil palm planting. However, the proliferation of such bodies poses problems in effective use of limited managerial and technical personnel.

II.—ESTABLISHMENT OF PLANNING AND MANAGEMENT UNITS IN MINISTRIES

431. In the years ahead, the role of Ministries and Departments in policy analysis, programme planning, operational coordination and management control will be further strengthened by establishing in each major Ministry:

(i) a planning, research and policy coordinating unit, comprising officers from the administrative, professional and technical services; and

(ii) a management service unit, whose corps of officers is already being trained by the DAU. For a start, twelve trainee management analysts will complete their course in February, 1969 and will then be assigned to serve in Ministries.

III. PERSONNEL ADMINISTRATION AND TRAINING

432. To ensure efficient administration and implementation of national development programmes, it is imperative that the standard of public services in Malaysia is constantly improved and upgraded to meet the

changing needs and circumstances of a rapidly growing economy. A strategy has therefore been adopted to institute improvements in the capability and performance of the public service. A new outlook and attitude among public officials is being developed through training, career development programmes and incentive schemes. Programmes of intensive training not only in technical fields but also for improving techniques of planning and implementation will be initiated. Full advantage will be taken of the facilities available in the Faculty of Economics and Administration at the University of Malaya for diploma and post-graduate training in public administration. Seminars and refresher courses will continue to be conducted at the Staff Training Centre and the Centre for Development Studies. Particular attention will be paid to training in programme and project formulation and regional planning as well as in planning techniques.

433. To facilitate the provision of accurate and timely information for manpower planning in the public sector in terms of quantity, quality and deployment, concrete steps have been taken to establish a Central Staff Record for the public service. Feasibility study and systems design have been done by the DAU and, with the establishment of this Central Staff Record system in the Public Services Department by mid-1969, Government will have at its disposal reliable and meaningful information on the position of employees in the public service for manpower planning and deployment, budgetary, actuarial and other purposes. The Record will be processed and maintained by electronic computers, thus enabling the quickest possible retrieval and analysis of management information for use not only by Government central control agencies such as the Treasury, the Public Services Department, the EPU and the DAU but also by the various operating Ministries and Departments of Government. The Record will ultimately contain the personal service particulars of all the 300,000 government employees in Malaysia.

434. The acute shortage of economists and other development planners felt in Ministries and State Governments will to a certain extent be alleviated by such in-service training and by reorientation of those officers who have not been specially trained in these areas. However, the need to establish planning and research units in Ministries and States to cope with the extensive requirements of development and to deal with serious economic questions requiring integrated economic analysis has to be met expeditiously. Active consideration is thus being given to the possibility of creating an Economic Service in the Government to attract more professional economists with experience and adequate training to meet the expanding demand of agencies such as Treasury, Ministry of Commerce and Industry, EPU and other major Ministries dealing with economic matters.

435. In addition, it is the intention of Government to second officials for temporary service in selected industrial enterprises from time to time in order to promote closer cooperation with the private sector and create a better understanding of industry and its problems. It is hoped that industry will cooperate in such an exercise as there should be a meeting of minds between Government and industry in the concerted drive towards industrialisation.

IV.—PERFORMANCE BUDGETING

436. One of the measures adopted by Government with a view to achieving greater efficiency and effectiveness in the allocation of resources is the initial introduction of the programme and performance budgeting system in the preparation of the 1969 Budget. The adoption of this system in the budgetary process and improvements in reporting can be of great help in ensuring careful analysis of expenditure in terms of the activities to be undertaken and evaluation of results in relation to money spent.

437. In addition, in the implementation of medium term plans, the annual budgets of Government have to take account of changing circumstances from year to year and effect sound budget-plan coordination. The process of annual planning, as reflected in the Development Estimates exercise of each year, provides the flexibility with which the Plan is implemented. Through annual reviews of progress and current developments such changes as may be required are incorporated.

V.—PROGRESS REPORTING AND EVALUATION

438. The Operations Room technique which was successfully introduced in the Second Malayan Plan (1961-65) for progress reporting on programmes and projects is being continued; all States and Ministries have taken steps to improve their systems of reporting. Monthly briefings at the National Operations Room for the Deputy Prime Minister are being held, while progress reports on all schemes in the Plan are processed and reviewed by the EPU in consultation with the DAU and the Ministry of National and Rural Development. While the Operations Room technique is an excellent method of directing, monitoring and assessing the progress of physical progress of individual projects, improvements are required in evaluating the degree of utilisation of facilities provided and benefits derived, especially in the areas of agriculture, irrigation and rural development programmes.

439. In plan formulation, in execution and evaluation of programmes and in the design of policy measures, good statistics are essential. While significant developments have taken place in the compilation of basic statistical series in recent years, there is room for improvements in national accounts

and balance of payments data as well as in data for manufacturing, construction, agriculture, labour, prices, transportation and population. As the existence of such gaps will adversely affect sound policy formulation and planning, Government will continue to give urgent attention to the build-up of the capacity of the Department of Statistics to service planning needs. To this end, the professional capacity of the Department will be enhanced. In addition, Government is approaching the UNDP/SF to provide a team of high-level experts to assist the Department in its future development.

440. The National Development Planning Committee (NDPC), which is charged with overall responsibility for the formulation, implementation, progress evaluation and review of development plans, has continued to undertake on-the-spot inspections of development projects. It has also carried out intensive studies and enquiries on a number of problem areas. These include evaluation of minor rural development projects and schemes for agricultural diversification. Special study teams set up under the auspices of the NDPC—e.g., the Standards and Costs Committee, Economy Drive Working Party—have introduced measures for inventory control, reducing construction costs and effecting economies. The major concentration in future will be on proper project management. Consultations have also been held with representatives of the private sector and trade unions from time to time on plans required for accelerated development of the economy. These consultations will in future be conducted more regularly with the formal establishment of the advisory committee to the NDPC on the development of the private sector early this year.

VI.—PROJECT PREPARATION AND MANAGEMENT

441. Considerable efforts have been made to improve project preparation and management by:

(i) strengthening the Projects Division of the EPU with officers specialised and trained in project preparation in both their economic and technical aspects;

(ii) conducting a series of project management seminars with participation from a cross-section of senior officers selected from Ministries and Departments charged with the responsibility of project preparation and management; and

(iii) embarking upon an intensive post-entry overseas training programme for officers.

But much more remains to be done in this direction. Experience indicates that many major development projects have taken longer to complete, and the capital costs have been higher, than originally planned. To a certain

extent such slippages, delays and cost over-runs can be traced to incomplete preliminary planning and analysis. To assist Ministries to improve project planning, the Standards and Costs Committee and the Estimates Sub-Committee of the NDPC have issued guidelines on the steps to be taken. These require that all major projects be justified by complete technical and economic pre-investment studies. Ministries will in future be obliged to present full feasibility studies in respect of projects involving large capital and recurrent outlay before their proposals can be included in the budget.

442. As a further step, a project management section is being set up in the DAU specifically to study projects from the standpoint of administrative feasibility and capability. A close working relationship between EPU and DAU is being established to ensure a more integrated approach towards the planning and implementation of development projects in terms of economic, technical and administrative implications of such projects, as well as to facilitate the development of modern project management systems.

VII.—REGIONAL AND AREA DEVELOPMENT

443. It has become increasingly recognised that an integrated approach to development at the regional or area level is essential to bring the benefits of development to relatively under-developed areas and to increase agricultural production. During the remaining part of the Plan, all programme activities within these development areas will be effectively coordinated and intensified. Demonstration plots, extension services, provision of fertilisers and credit will be integrated as a package programme. Area development plans have the advantage of generating enthusiasm, a sense of participation and maximum possible effort from local communities and enabling each community to utilise its land, manpower and other resources to the fullest advantage.

444. At the State level, it has also been recognised that a comprehensive and integrated plan for the development of a State or a major portion of the State is essential if advantage is to be taken of the full potential and the possibilities of development open to it. Government, in association with the States of Pahang, Trengganu, Johore, Penang, Malacca and Sarawak, has decided to adopt the technique of integrated social and economic development of the States concerned through the preparation of master plans preceded by surveys of available resources and needs. This is an important stage in the growth of national planning. Apart from the work already undertaken on Trengganu with the assistance of a Dutch technical cooperation team, the remaining studies will commence in 1969-70.

445. Preparations for the Penang Master Plan, which will provide a comprehensive blue-print for the development of the State of Penang, are well underway. A team of well-known consultants has already been engaged and is expected to commence work before mid-1969. A joint Federal/State Committee of senior officials has also been established to undertake advance planning and analytical study of various activities so that the work of the consultants can proceed expeditiously and the Master Plan, when formulated, can be implemented speedily.

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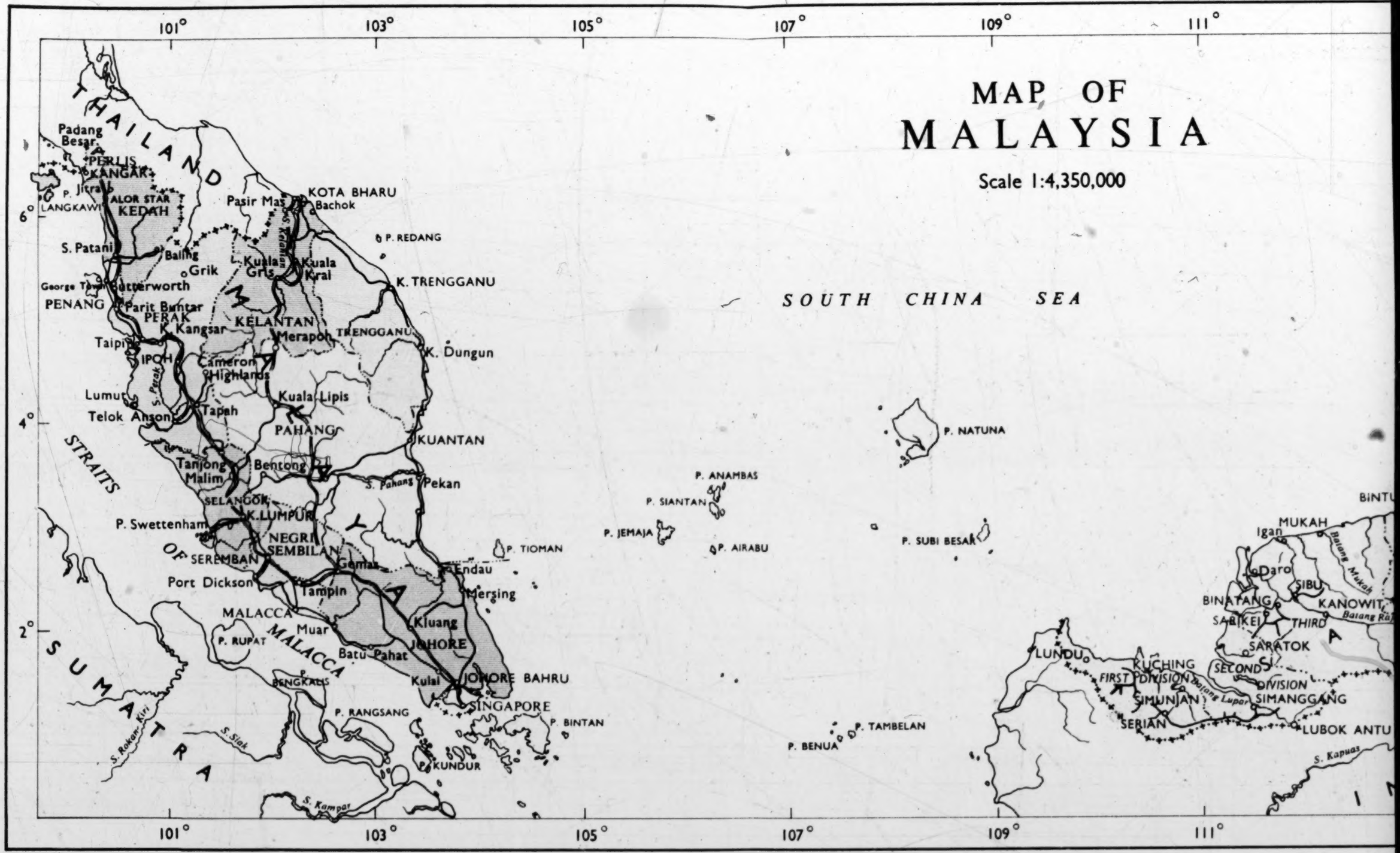
MAP OF MALAYSIA

Scale 1:4,350,000



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Kebenaran Pengarah Pemetaan Negara, Malaysia, wajib didapati sa-belum peta ini atau sebahagian daripada-nya di-salin.

MAP OF MALAYSIA

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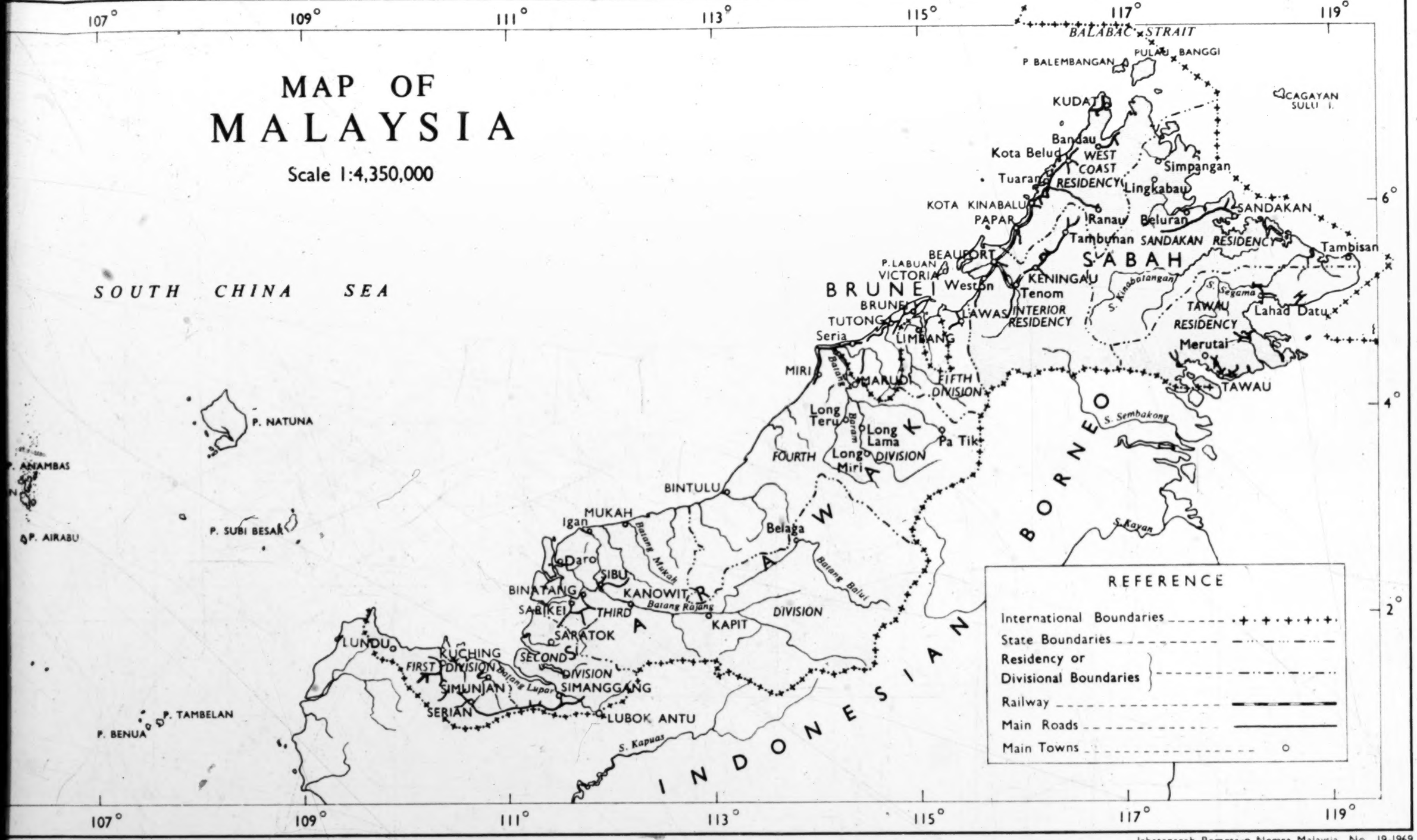

REFERENCE

- International Boundaries
- State Boundaries
- Residency or Divisional Boundaries
- Railway
- Main Roads
- Main Towns

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